YING FENG

The effectiveness of corporate governance mechanisms and leadership structure

Impacts on strategic change and firm performance

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The Effectiveness of Corporate Governance Mechanisms and Leadership Structure: Impacts on strategic change and firm performance

De effectiviteit van corporate governance mechanismen en leiderschapsstructuur: effecten op strategische verandering en bedrijfsperformance

Thesis

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Preface

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CHAPTER 1 Introduction

1.1 General Introduction to the Research Topic

For decades, research has addressed the relationship between corporate governance and firm performance and strategy (Aguilera, Filatotchev, Gospel, & Jackson, 2008; Baysinger & Hoskisson, 1990; Carpenter & Westphal, 2001; Deutsch, Keil, & Laamanen, 2008; Golden & Zajac, 2001; McDonald & Westphal, 2013; Nakauchi & Wiersema, 2015). To date, most research takes an economic perspective and concentrates on formal corporate governance structures, with a focus on the design of proper internal and external governance mechanisms that aim to maximize the contributions of corporate governance to firm-level outcomes. This stream of research has laid important foundations for corporate governance research and urged the emergence of a variety of new perspectives and theories. For instance, scholars have increasingly paid special attention to the role of contexts and taken a contingency perspective to examine the effectiveness of corporate governance mechanisms (Aguilera et al., 2008; Desender, Aguilera, Crespi, & Garc, 2013). Besides, board dynamics involving informal behavioral processes in the leadership has evoked interests from corporate governance researchers, presenting promising research paths filled with underexplored research questions (Hambrick, Werder, & Zajac, 2008; Pye & Pettigrew, 2005).

Despite the efforts devoted to the development of new theoretical lens and investigation of behavioral factors in corporate governance, there is still a demand for research that explores these issues in different institutional contexts (Davis, 2005; Westphal & Zajac, 2013). In their proposal for a behavioral theory of corporate governance, for instance, Westphal and Zajac (2013) stressed that symbolic management, which defines the ways that organizations use to obtain and maintain legitimacy from the environments by associating their activities with the expectations and beliefs that are held by these stakeholders (e.g., Westphal & Zajac, 1998), is among the corporate governance research streams that would benefit greatly from comparative research that examines symbolic mechanisms under various institutional environments. In addition, a broadened focus on different institutional contexts can also help reexamine the current boundaries of major corporate governance theories. For example, a precondition of the solutions to traditional agency problems is the existence of legal and governance mechanisms which aim to minimize the conflicts of interests between owners and managers in order to protect the interests of owners (Jensen & Meckling, 1976). The assumption implies that the main function of boards is to monitor top management teams and financial issues to prevent shareholders' wealth from being damaged. In contrast, in developing economies where a strong institutional environment that can support efficient corporate governance systems is lacking, new challenges have emerged and demand attentions from corporate governance scholars for the changing roles, functions, and effectiveness of boards in such contexts (Dharwadkar, George, & Brandes, 2000; Li & Qian, 2013; Luo, Wan, Cai, & Liu, 2013; Shen, Zhou, & Lau, 2016; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008).

1.2 Overall Conceptual Framework

As the last several decades have witnessed the significant growth of corporate governance research, scholars and practitioners have also been enriching their understanding of what constitutes proper corporate governance practices (Huse, Hoskisson, Zattoni, & Viganò, 2011). In the exploration process, economic perspectives such as agency theory, which emphasizes the responsibility of corporate boards in protecting the interests of shareholders by exerting the monitoring function (Fama & Jensen, 1983; Jensen & Meckling, 1976), have been dominating board research. Therefore, the search for effective formal corporate governance mechanisms has been among the top priorities in corporate governance research. On the other hand, a group of corporate governance scholars have started to consider the broader social structure that corporate governance mechanisms and key players (such as boards of directors and CEOs) are embedded in and influenced by (Bednar, 2012; Ees, Gabrielsson, & Huse, 2009; Westphal & Zajac, 2013).

In their discussion of new directions in corporate governance research, Hambrick et al. (2008) portrayed the research areas in a two-dimensional matrix: three major categories (formal structures, behavioral structure, and behavioral process) and two levels of analysis (micro and macro directions) (Hambrick et al., 2008: 381-382). They pointed out that while research on formal corporate governance structure has made important contributions to the corporate governance field, new valuable paths could emerge from the combination of other categories (i.e., informal behavioral structure and process) and different levels of analysis.

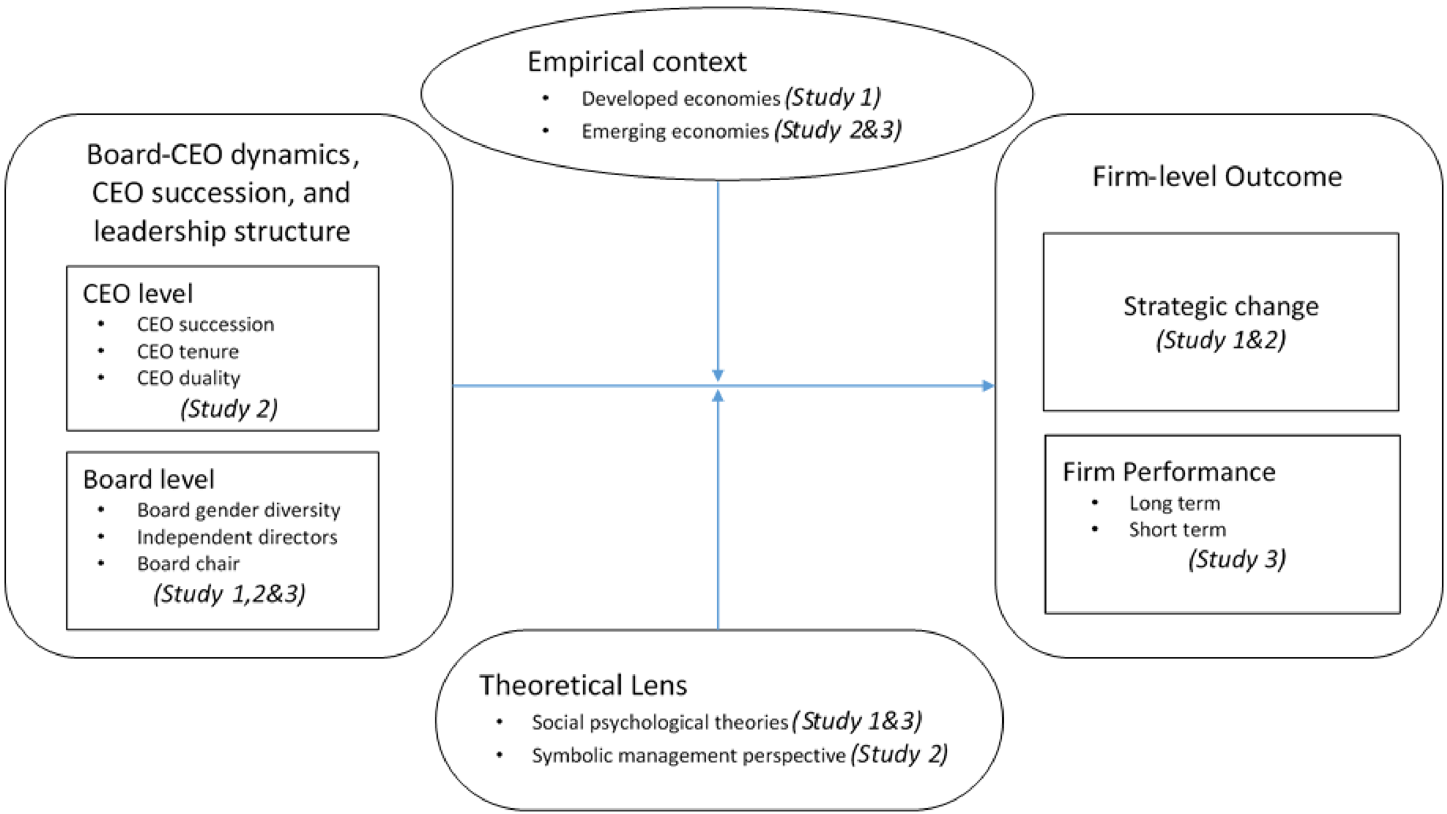
For example, if we open the black box of the board and closely examine the board behavioral structure, we can notice that directors are not homogenous in nature. They usually have a distinct set of backgrounds and characteristics, and the power and status that are rooted in their experiences, current/past positions, and established networks within and outside the organization can make some directors more influential than others (e.g., Westphal & Stern, 2007; Zajac & Westphal, 1996).

Against this backdrop, *this project aims to contribute to* corporate governance theory and practices by investigating how behavioral structure and process of boards of directors, and their interactions with CEOs can exert influences on a firm's strategic and financial outcomes. Figure 1.1 presents the overall conceptual framework of the project, which we will introduce from three directions.

1.2.1 Board dynamics, firm strategy and firm performance – From a social psychological perspective

The primary focus of the conceptual framework is laid on the relationship between board behavioral dynamics and firm-level strategic and financial outcomes. As noted before, the traditional economic perspective in corporate governance research sees boards as a monitoring tool, whose main duty is to scrutinize managers' activities on behalf of shareholders. However, along with the emergence of multiple-level perspectives and theoretical lenses in corporate governance, there are continuous doubts on the traditional single role of boards. The long-lasting debate on the proper roles of corporate boards has produced a considerate amount of evidence supporting the notion that boards of directors are increasingly involved in strategic decision-making processes at firm level (see Pugliese et al., 2009 for a review). For example, researchers have noticed that the behavioral structure of boards of directors can influence their involvement in strategic decision-making processes. On the micro level, board power (relative to top managers/CEOs) has been found to exert significant impacts on resource allocation patterns in firms (Golden & Zajac, 2001; Tang, Crossan, & Rowe, 2011). On the macro level, social networks possessed by directors in an interorganizational context are also shown to be effective predictors of the directors' involvement in strategic decision-making in firms (Carpenter & Westphal, 2001).

Figure 1.1 Overall conceptual framework



As plenty of research has explored how the behavioral structure of boards could be used to predict their strategic role, the investigation of the *behavioral process* on boards has received relatively little attention, with a few exceptions (e.g., Hillman, Nicholson, & Shropshire, 2008; Nielsen & Huse, 2010a). Therefore, our first direction investigates the *behavioral process* within the decision-making group (boards of directors and CEOs) with a focus on the behavioral dynamics. This direction aims to contribute to the current understanding of the strategic decision-making process, especially how the process could be influenced by *social psychological factors* that could hardly be revealed by the formal corporate governance structure (Ees et al., 2009; Hambrick et al., 2008; Westphal & Zajac, 2013). Within this direction two studies are developed, which employ social psychological theories to address two aspects of board dynamics and process – board gender dynamics and behavioral patterns of independent directors – and their respective impacts on firm strategic change (*Study 1*) and financial performance (*Study 3*). Table 1.1 provides an overview of each study, which we will also briefly introduce in section 1.3 of this chapter.

Table 1.1 Overview of the three studies

Study	Research Question(s)	Theoretical Focus	Sample, Data Sources and Methodology	Main Findings
Study 1	The research investigates the impact of board gender diversity on firm strategic change and how the gender of the board chair can moderate the relationship.	Status Characteristics Theory; Role Congruity Theory	Directors in Fortune 500 US companies, 2003-2009 Execucomp, Compustat Quantitative analysis	➢ The proportion of female directors on corporate boards is negatively related to strategic change; ➢ When the board chair is a female rather than a male, the negative relationship between board gender diversity and strategic change is likely to be attenuated.
Study 2	The study focuses on the symbolic function of the founder CEO succession when the founder retains on board as the chair.	Symbolic Management Perspective	Founder CEO succession events on Shenzhen Stock Exchange, 1994-2010 CSMAR, Thomson One Quantitative analysis	➢ The founder's retention as the board chair after the succession event is negatively related to strategic change; ➢ Higher post-succession firm performance can attenuate the negative relationship between the founder's retention and strategic change; ➢ A shorter tenure as CEO will also reduce the negative influence of the founder's retention on strategic change.
Study 3	This study examines the link between professional identities of politically connected independent directors, their behavior patterns and implications for firm performance.	Professional Identity-Based View	Independent Directors in Fortune 100 Chinese companies, 2004-2007 CSMAR, annual reports Quantitative analysis	➢ The proportion of independent directors with professional identity as local government officials is negatively related to short-term firm performance but positively related to long-term firm performance; ➢ A higher proportion of independent directors with professional identity as industry association officials can contribute to firm performance in the short run, but it does not show a negative impact on long-term firm performance given a three-year lag.

1.2.2 CEO succession, leadership structure, and firm strategy – From a symbolic management perspective

The second key issue examined in this thesis is the relationship between CEO succession, leadership structure and firm strategy. Change in leadership, in particular CEO position, is considered to have importance consequences on firm strategy (Giambatista, Rowe, & Riaz, 2005; Hutzschenreuter, Kleindienst, & Greger, 2012). For example, based on analysis of U.S. minicomputer industry, Romanelli and Tushma (1994) found that CEO succession is likely to lead to a revolutionary transformation in organizations. Ndofor et al. (2009) argued that performance decline is usually the reason for leadership succession, which indicates the need for strategic change in the post-succession period. Therefore, when the incumbent CEO is replaced by a successor, it is usually perceived as a signal for strategic reorientation. However, the expectations of strategic change is not always associated with actual change. Symbolic management perspective on corporate governance (Westphal & Zajac, 1994) has provided a lens on how organizations may use symbolic actions to satisfy external shareholders without substantial changes taking place. When investigating CEO compensation in US Fortune 500 companies, Westphal and Zajac (1998) found that the symbolic alignment of managers' incentive plans (i.e. adoption of long-term incentive plan) and shareholders' wealth will enhance shareholder's confidence in the company, no matter whether the plan is actually implemented or not. The symbolic actions were also found to be able to substitute other corporate governance practices that are used to improve board monitoring functions, such as increased proportion of outside directors and separation of CEO and board chair position.

CEO succession is tightly associated with the arrangement of leadership structure, or CEO duality, which is used to describe whether the position of CEO and board chair is held by the same person (Dalton, Daily, Ellstrand, & Johnson, 1998; Krause & Semadeni, 2013; Tian & Lau, 2001). As one of the most discussed topics in corporate governance literature, CEO duality has received enormous attention for the last several decades (see Krause, Semadeni, & Cannella, 2014 for a review). Notwithstanding the conflicting results regarding the relationship between CEO duality and firm's financial performance (Baliga, Moyer, & Rao, 1996; Boyd, 1995; Dalton et al., 1998; Peng, Zhang, & Li, 2007), scholars seem to reach consensus on one point: CEO duality signifies strengthened CEO power and discretion in decision making and weakened monitoring intensity of boards of directors (Krause et al., 2014: 2, Finkelstein et al., 2009). The reactions from shareholders seem to coincide with the agency logic. For example, according to the analysis of proxy statement disclosures of Standard & Poor 500 by Spencer Stuart in its *U.S. Board Index 2015*[1], the proportion of companies with CEO duality has decreased significantly during the last decade, from 77% in 2003 to 59% in 2015. Institutional Shareholder Services (ISS)[2], a leading proxy advisor, also shows that the calls for the separation of CEO/board chair position is among the top demands in shareholder proposals. Although shareholders seem to have more confidence in a company when the CEO doesn't simultaneously hold the position of board chair, empirical results have questioned the effectiveness of CEO non-duality in improving board functions. For instance, Daily and Dalton (1997a, 1997b) questioned the relationship between the separation of CEO/board chair positions and effectiveness of corporate governance (board independence). Especially, they argued that when the former CEO remains on corporate boards as chair, he or she might negatively influence the successor's capability to initiate changes, therefore compromising the benefits of separating CEO/board chair position. This view was backed by Quigley and Hambrick (2012), who found empirical evidence to support the notion that the retention of former CEO on corporate boards is negatively related to strategic change.

Therefore, the second focus in this thesis is on CEO succession, leadership structure, and firm strategic change *(Study 2)*. Based on the symbolic management logic, we argue that CEO succession could serve symbolic functions to manage perceptions of shareholders about the image of strategic change inside the company. We also examine how leadership structure could play a part in this relationship.

1.2.3 The institutional contexts of the project

This project examines the effectiveness of corporate governance arrangements and leadership structures in both developed economies and emerging economies, taking into consideration the role of behavioral patterns of directors and CEOs. The developed economy selected in this project is USA, which presents an important institutional context where most

[1] See https://www.spencerstuart.com
[2] See https://www.issgovernance.com

corporate governance theories are rooted and developed. Therefore, by incorporating the USA context in this project, we aim to add new knowledge to current corporate governance research by adapting new theoretical perspectives to examine the issues that haven't been sufficiently addressed before.

The emerging economy that we select in this project is China. China's achievements in economic development have astonished observers across the world (Tan & Tan, 2005). While researchers and observers are investigating the underlying mechanisms that have helped create the Chinese economic miracles, Chinese practitioners are rapidly acquiring knowledge and skills from their western counterparts to facilitate the upgrade of industrial structures and achieve sustainable development. In this process, however, a series of issues that are rooted in the institutional environment have emerged. An example could be the two-tier board structure in Chinese listed firms. While the initial purpose was to adopt advanced corporate governance practices and mechanisms from developed economies, the outcome is a unique two-tier board structure, which differs from both the continental European dual board system and the Anglo-American unitary board structure (Xiao, Dahya, & Lin, 2004). Doubts have been cast on the functions of such structure and its effectiveness in practice, especially given that concentrated ownership is prevalent in such contexts (e.g., Hu, Tam, & Tan, 2009). Therefore, Chinese context enables us to examine how the effectiveness of corporate governance mechanisms could differ and how practices should be adapted to fit the weak institutional environment. The investigation of these research questions is timely and valuable for research and practice in both emerging and developed economies. Regarding emerging economies, the investigation of Chinese corporate governance practices could provide important insights and suggestions for the development of corporate governance code, evaluation of "good corporate governance practices", and introduction of advanced management experiences and skills from developed economies. With regard to developed economies, it's especially important for organizations that are seeking to develop and expand markets or build business networks in emerging economies, since the extent to which these organizations could accommodate to different cultural and political environments and understand the impacts on business activities could largely influence their chance of business success.

1.3 Overview of the Three Studies

In this section, we will provide an overview of the three studies that constitute the thesis, which addresses three different but related aspects of board and corporate governance research within the boundaries outlined in the ***Overall Conceptual Framework***. Table 1.1 has summarized the research questions, theoretical focus, data sources and methodology, and findings of all three studies.

Study 1 examines the role of board gender diversity in shaping strategic outcomes. Specifically, we examine whether more female directors on corporate boards can bring a higher level of strategic change in firms. We build on *Status Characteristics Theory* and *Role Congruity Theory* to investigate the relationship between female board directors and resource allocation patterns in firms. We predict that the social beliefs that are held by board members and the prejudice against females on corporate boards will produce a negative relationship between board gender diversity and firm's strategic change. However, the negative relationship could be alleviated when the position of board chair is occupied by a female. The analysis based on boards of directors in USA Fortune 500 companies confirmed our hypotheses.

Study 2 investigates the implications of CEO succession for strategic change in publicly traded companies. Leadership structure frequently serves the function to indicate a company's patterns in strategic decision making. Therefore, changes in leadership structure or CEO succession events are considered to signify a company's tendency to initiate strategic reorientation. However, despite the expectations, frequently in practice the change in the leadership structure doesn't lead to substantial changes in firm strategy. In this study, we employ a *Symbolic Management Perspective* to investigate how CEO succession events could serve symbolic function in Chinese firms to manage the perceptions of external stakeholders about strategic change. Specifically, we focus on the scenario of founder CEO succession, and study how the retention of founder on corporate board as chair can influence post-succession strategic change. We predict that when the founder CEO stays on board as chair after the succession event, the successor CEO's power and discretion are likely to be reduced. This is likely to exert a negative influence on firm's strategic change. We further examine how the relationship is contingent on other factors, i.e., post-succession firm performance and founder tenure as CEO, which are expected to alter the relative power between founder and successor CEO. The analysis is conducted based on all founder CEO succession events in Chinese companies listed on Shenzhen stock exchange (SZSE) from 1994 to 2010. The findings confirmed our hypotheses.

Study 3 adopts a social psychological perspective to examine the relationship between independent directors and firm performance. Prior research on independent directors has focused on their role as active monitors or resource providers, while little attention has been paid to the underlying mechanisms that shape independent directors' behavioral patterns on corporate boards. In this study, we examine how politically connected independent directors' professional identity can influence their behavioral patterns on boards and the consequences for firm performance. Specifically, we focus on Chinese boards, which present a circumstance where institutional context plays a significant role in business activities. By applying *Identity Theory* to board research, this study proposes that politically connected independent directors' identities shaped by external professional roles can exert an impact on their behavioral patterns on corporate boards and will consequently influence short-term and long-term firm performance, respectively. Empirical results based on data from Chinese Fortune 100 companies during 2004 to 2007 supported most of our predictions.

The remaining part of this thesis will be divided into four chapters. We will introduce three studies in details from Chapter 2 to Chapter 4, each of which will present a piece of work that addresses its own set of research questions that constitute a part of the *Overall Conceptual Framework* presented in Figure 1.1. For each of the studies, we will develop a theoretical model and a set of hypotheses, which will be tested by a unique sample that is specifically developed for each study (see Table 1.1). We will also elaborate the contributions and implications at the end of each study. Finally, in Chapter 5 we will discuss the overall contributions and relevance of the thesis for current literature and managerial practices.

CHAPTER 2 Study 1. Women on Corporate Boards and Strategic Change: How Gender of Board Chair Makes a Difference*

2.1 Introduction

'[In meetings,] I often observed that at times women were invisible to men, who looked right through you as though you weren't there.'

(Katharine Graham, *Personal History*, 1997: 419)

The average proportion of women on US fortune 500 corporate boards has marginally increased in the last few years, from 15.2 in 2009 to 16.9 in 2013 (Catalyst 2009, 2013). Meanwhile, social discussions about women's participation in top-level positions has also intensified (Cook & Glass, 2013; Kogut, Colomer, & Belinky, 2014). A recent example could be the plenary session on "Gender-driven growth" at the World Economic Forum (WEF) Annual Meeting 2014. While the panel sought to answer the question: "should women be running the world economy?", in the current study, we raise a different question: "should women be running the company?". Specifically, we seek to explore the research question in the context of board of directors. Although board gender diversity has revealed its importance in both academia and practice, most interests have been laid on the relationship between gender diversity and firm financial performance (Adams and Ferreira, 2009; Campbell and Minguez-Vera, 2007; Terjesen et al., 2009). In other words, how women directors on corporate boards could play a strategic role has received relatively little attention, making it an under-researched area (Chen, Crossland, & Huang, 2014; Triana, Miller, & Trzebiatowski, 2013).

Extensive evidence in corporate governance literature has shown that board composition can affect board decision making, and thus possibly strategy (Baysinger & Hoskisson, 1990; Forbes & Milliken, 1999; Pugliese et al., 2009; Ruigrok, Peck, & Keller, 2006). Further, recent work suggests that women directors might be anticipated to exert

* An earlier version of this chapter was presented at the 2012 SMS Doctoral Workshop. The author was also invited to present this chapter in Lancaster University, UK in November, 2015.

influences on firm strategy because they bring cognitive, emotive and social capital which are different from male peers' contributions (e.g., Adams and Funk, 2012). The rationale that women can affect strategy by bringing in variety resonates well with other literature that has emphasized the benefits of heterogeneous teams and workforce (Bacharach, Bamberger, & Vashdi, 2005). However, although a board with higher gender diversity (higher proportion of women directors) could provide advantage, it can also potentially trigger unproductive dynamics due to the societal stereotypes anchored in gender-based roles associated with being male or female.

There is widespread contemporary recognition of gender as a social construct, which encapsulates roles and expectations linked to males and females in social structures (Ely, 1995; Wood and Ridgeway, 2010). The effect of these socially assigned roles and expectations for gender dynamics in work settings has been the subject of extensive scrutiny (Powell and Butterfield, 1979; Sell, 1997). An important message emanating from this stream of research is that male-female workplace interactions are typically predicated on the basis of internalized stereotypes that exist in the wider environment regarding gender status beliefs, which tend to put women in a less favorable position as compared to men when it comes to leadership positions (e.g., Ridgeway, 2001). Building on this stream, the present study examines whether and how board diversity could affect strategic change – a measure of firms' performance that captures responsiveness to the environment (e.g., Fiss and Zajac, 2006; Golden and Zajac, 2001).

In contrast to earlier work that has highlighted the benefits of resource variety brought by gender diversity (Hillman, Withers, & Collins, 2009; Triana et al., 2013), we submit that higher level of board gender diversity might actually weaken the firm's ability for strategic change. Our expectations are based on role congruity theory and status charactersitics theory. Besides the potential effects of male-female status asymmetry, the influence of female directors who seek to fit-in by stepping outside gender-based roles and expectations could also be constrained because the behavior challenges ingrained belief structures. Importantly, we also argue that this role of gender diversity is not inevitable - status beliefs could be changed and traditional role stereotypes can be altered. We particularly suggest that if the position of board chair is filled by a female, it could trigger this process and reduce the negative effects of gender diveristy on strategic change.

Analysis of data from a seven-year panel of Fortune 500 companies supported our predictions. This study makes several contributions. First, we add insights into the research on strategic consequences of board behavioral dynamics, which seek to extend earlier work that has focused on the direct link between board composition and firm performance. Role congruity theory and status characteristics theory complement resource dependence theory (RDT) by providing new lenses to examine the effects of board gender dynamics and implications for firm's strategic change. The research reported in the article offers the possibility of reconciling some of the earlier mixed findings regarding the effect of greater gender diversity on board of directors. Although a more gender diverse board seems to have more potential access to diverse resources, the utilization of these resources could be hindered by gender stereotypes and perceived role and status incongruity in boardrooms. Second, the study adds new knowledge to the emerging board chair literature. Beyond the investigation of chair's duality role, we show other salient characteristics of board chair, such as gender, also have important implications for board dynamics strategic management. Our work thus seeks to provide inspirations for future research on board chair, especially how the demographic similarity between board chair and board members could be utilized to improve the status and influence of low-status individuals. Third, our findings also have implications for policy makers and practitioners. Based on US Fortune 500 companies, the results show that board gender diversity *per se* is unlikely to contribute to higher level of strategic change in firms. On the contrary, after controlling for a series of external and internal factors, a higher proportion of female directors on corporate boards would lead to decreased strategic change. The findings are especially inspirational for countries that are considering introducing the system of gender quotas. While the system is prevalent in European countries, outside Europe there are still ongoing discussions on the advantages and disadvantages of adapting such regulations on executive level, especially in the boardrooms. Our research seeks to contribute to the conversation by emphasizing that the effects of gender quotas are contingent on the presence of other factors in the environment. If the gender quota is only considered as mandatory regulation without the supportive micro environment in individual firms, its effectiveness could be compromised due to the asymmetric stereotypes. Creating favorable micro environment towards female employees in individual companies can alter women's self-concept and prevent dysfunctional dynamics ensuing from traditional status beliefs regarding the male and female gender and can greatly enhance the effectiveness of gender quotas.

2.2 Theoretical Background and Hypotheses

2.2.1 Board gender diversity and firm outcomes

Examination of board gender diversity's impact on organizational outcomes has focuses on the relationship between women representation on board and firm's financial performance, with however mixed results (Terjesen, Sealy, & Singh, 2009). Plenty of evidence across different institutional contexts has shown that a higher proportion of women directors in boardrooms is positively associated with firm performance (Campbell & Mínguez-Vera, 2007; Erhardt et al., 2003; Mahadeo, Soobaroyen, & Hanuman, 2011). Using data from large US companies, Erhardt *et al.* (2003) found that board gender and ethnic diversity are positively associated with firm's ROA and ROI. In another study based on Spanish companies, Campbell and Mínguez-Vera (2007) also detected a positive relationship between board gender diversity and firm's firm performance (Tobin's Q) using data from 1995 to 2000.

On the other hand, some studies show that board gender diversity may negatively influence firm performance (Adams & Ferreira, 2009; He & Huang, 2011). For example, research has pointed out that too much monitoring activities, which are considered key advantage of having women directors, could harm shareholders' interests (Almazan & Suarez, 2003). Adams and Ferreira (2009) further supported this argument by identifying a negative relationship between board gender diversity and firm performance. In addition, Dobbin and Jung (2011) found that an increase in gender diversity on boards of US companies leads to value decrease in stock market. Interestingly, they also found in the same study that firm's subsequent profitability is not likely to be influenced by increased gender diversity. This non-significant direct relationship between board gender diversity and firm performance, has also been shown in other research (Carter, D'Souza, Simkins, & Simpson, 2010; Miller & Triana, 2009).

Beside the exploration of the relationship between board gender diversity and firm performance, more recently strategy scholars start to pay attention to the strategic implications of women representation in boardrooms (Chen et al., 2014; Triana et al., 2013).

Miller and Triana (2009), for instance, proposed that firm's innovation strategy can mediate the relationship between board gender diversity and firm performance. Although the sample didn't reveal a mediating effect of innovation strategy, the study still provided new insights by modeling how a gender diverse board leads to a higher level of innovation intensity through the introduction of diversified perspectives and network resources. Chen et al. (2014) take a different angle and argue that a gender diverse board will be exhaustive and prepared in evaluating strategy proposals. Focusing on the case of mergers and acquisitions, the paper argues that boards with high proportion of women directors will be more likely to experience thorough discussions and evaluations on executives' proposal for acquiring firms, which will result in fewer and smaller acquisitions. These studies, although small in number, have provided a picture of how strategic role of women directors is interpreted in strategy literature. In general, women directors are considered to contribute to board process and strategic decision making by different means: resources provision (in terms of either ideational resources or social resources), active involvement, and thorough discussion. However, to the best of our knowledge, few of the existing literature has looked into whether women directors *are able to* contribute their perspectives and resources in board decision making process. In the remaining of this section (2.2), we will address the issue and build on status characteristics theory and role congruity theory to examine the role of women directors on boards and their impacts on firm strategic change.

2.2.2 Gender status in leadership positions

To address the extent to which women directors matter in strategic decision-making process, we first explain how gender matters in leadership positions. As noted in leadership literature, "gender" should be distinguished from the concept of "sex" because the later merely refers to biological differences between males and females while the former contains richer meanings that are beyond the biological surface (Vecchio, 2002). Gender is considered by social psychologists as "an institutionalized system of social practices" (Ridgeway, 2001: 637) in which males and females are shaped in different social ways, based on which inequality is arranged (Ridgeway & Smith-lovin, 1999). Gender provides the basis for daily interactions in society, where the availability and almost equal-sized groups of both sexes maximize the structural probability for contacts across different genders (Blau and Schwartz, 1984). The everyday exposure to gender system and intensive interactions within the system make gender distinctive compared to other systems of inequality such as race and class (Fiske, Haslam, & Fiske, 1991; Ridgeway & Smith-lovin, 1999). The repeating associations between male and female across different interactional situations facilitate and confirm the shared gender beliefs about how men and women are different and unequal (Ridgeway & Smith-lovin, 1999).

Despite the frequent interactions between men and women, research shows that in the workplace most interactions take place across different occupations, with men usually occupying prestigious and high-status positions while women occupying low-status positions (South, Bonjean, Markham, & Corde, 1982). The fact that high-status positions are disproportionately taken by men not only affords different experiences to men and women, but also creates stereotypic beliefs about the different traits and resources that men and women respectively possess (e.g., Wood and Eagly, 2002). Gender status beliefs, the perceived difference and inequality in status in terms of gender categories, are the core of gender systems and guide people to identify men and women in different ways (Ridgeway, 2001).

Social psychological literature has discussed the formation and implications of gender inequality in leadership positions. In their theory of prejudice toward female leaders, Eagly and Karau (2002) argued that women in high level leadership positions face two types of prejudice, with one related to women's potential leadership capability, and the other related to women's behavior in leadership positions. The first type of prejudice derives from gender beliefs, which attributes stereotypical qualities to men and women. In general, men are assumed to possess agentic qualities that are typically required in (high level) leadership positions, such as aggressive and forceful. Women, on the other side, are normally associated with communal attributes, such as helpful and kind. To overcome this prejudice, female leaders might seek to show more agentic qualities as evidence of breaking the misfit between female role and leader role. Yet, this behavior can evoke the second type of prejudice, which stems from the disconformity of desired gender role (Eagly and Karau, 2002: 576). In short, if women meet the expected requirements as qualified leaders, they will violate desired female gender role; if women fulfill gender expectations, the incompatibility between female stereotypical qualities and desired qualities as leaders will become salient. In either situation, female leaders are likely to be devalued in their performance evaluations.

Status characteristics theory, provide additional explanations on gender inequity by emphasizing the status attached to each gender (Ridgeway & Smith-lovin, 1999). The theory examines the origins and influence of gender status beliefs (Berger, Cohen, & Zelditch, 1972). It argues that in organizations, the status formation is based on the expectations that people have for themselves and other members (Lucas, 2003). The status hierarchy is constructed in a way that high-status members are more influential in group processes than low-status members. The scope of status characteristics theory is constrained to groups where the main purpose is to accomplish a collective task and therefore group members have to regularly form cooperation for a collective goal (Berger et al., 1972; Cohen & Roper, 1972). Status characteristics theory has been applied to leadership research and makes predictions about how status beliefs can influence behavior and participations of female leaders in the workplace (Ridgeway, 2001). It suggests that when available information is limited, female leaders will receive lower evaluation on her performance and competence than male leaders (e.g., Lucas and Lovaglia, 1998). The core element that causes such powerful barriers to women's authority on leadership positions, according to this theory, is the shared status belief about gender difference (Jost & Banaji, 1994; Ridgeway, 2001). Status characteristics theory has also been used to explain the different standards that male and female directors receive in evaluation (Foschi, 1996). For instance, Hillman et al. (2002) pointed out that female directors must exhibit higher level of ability (i.e., education) than their male counterparts to compensate for outsider status.

In summary, social psychological literature indicates that gender stereotypes contain beliefs about the relative competence between men and women in different areas. Specially, gender role and status beliefs form the basis for gender inequality in leadership positions. Because leadership positions are usually considered prestigious and leaders are expected to be agentic, expectations derived from gender status beliefs are enforced and consequently form a legitimacy process which unavoidably hinders women leaders' capability to exercise influence and power (Ridgeway, 2001).

2.2.3 The effects of board gender diversity on strategic change

According to status characteristics theory, status of individuals in a group is based on the expectations of their contribution to overall group goals. If an individual is expected to greatly contribute to the realization of group goals, then there will be higher status attached to the individual (Lovaglia, Lucas, Rogalin, & Darwin, 2006). Because the relationship between member characteristics and group performance is always unclear to group members, salient characteristics are used to form status and shape different expectations for group members in group processes.

Gender as the indicator of a diffuse status, for instance, represents a typical case which reflects social perceptions about how man and woman should play their roles in organizations. Research shows that the expectations towards different genders in organizations are embedded in culture and people basically share common beliefs on the connection between positions and competence of each gender (Lovaglia et al., 2006). Status formulations implies that although explicit rules may not exist in written form, group decision-making process follows informal, implicit but patterned rules, which sometimes are unconscious (Sell, Lovaglia, Mannix, Samuelson, & Wilson, 2004). For instance, women are considered to lack agentic characteristics (Wood & Eagly, 2002; Wood & Ridgeway, 2010), which however are believed to be necessary for a successful leader (Eagly, Johannesen-Schmidt, & van Engen, 2003). The role incongruity between the gender and leadership position and status beliefs held by group members can lead to significant status differences in a group. Cooperative perspective in social psychological literature further points out that status difference in a group is an important factor in deciding individuals' outcomes. Specifically, groups with unequal status members are more likely to adopt competitive negotiation strategies instead of collaborative decision making process (Sell et al., 2004). The consequence of the competitive negotiation strategies is that overall performance of the group will be reduced due to the rejection of a variety of resources (e.g. Mannix, 1993).

A similar situation can be anticipated to rise in boardrooms too. Perceived lack of agentic qualities makes female directors considered less capable than male directors to occupy prestigious position. Because the female stereotypes and status beliefs about the incongruity between a female and a directorship position, women are likely to be devalued in executing director roles. In addition, given that women often make up a small proportion of directors, they are likely to be seen as outsiders by male colleagues (Westphal & Stern, 2006). As a consequence, women in the boardroom have to manage the impression and stereotypes upon them from the male group members (Glick, Zion, & Nelson, 1988; Rudman

& Phelan, 2008). Female directors are likely to face a dilemma in such situation. To alter the perceptions of "lack of fit" from group members (Eagly & Karau, 2002), they may seek to behave in a "male way" in order to convince group members that female directors can work as effectively as male directors (Rudman & Phelan, 2008; Wiley & Eskilson, 1985). Indeed, research shows that strong and counterstereotypical information may help women leaders to be seen as suitable as male leaders (Glick et al., 1988). However, as women directors present themselves as competent and assertive, their violation of gender stereotypes has been shown to elicit negative reactions from male leaders. Evidence from sociological research has shown that female leaders may incur backlash effects, as a consequence of disconformity to stereotypes and status beliefs (Heilman, Wallen, Fuchs, & Tamkins, 2004; Rudman, 1998).

We argue that the dilemma female directors face in boardrooms forms a barrier that makes it difficult for them to effectively execute duties and exert influences. The perceived disconformity and incongruity will give rise to "less favorable evaluation" (Eagly & Karau, 2002) of female directors' capabilities and actual behavior during board processes, which involve making use of diverse resources from directors and utilizing them in strategic tasks. The prejudice towards female directors in the boardroom can lead to a situation where male directors are likely to ignore female directors' opinions and devalue their potential contributions to decision-making processes. The actions on male directors' side will also impose constraints on female directors' board behavior. For instance, Nielsen and Huse (2010) argues that women directors usually have the feeling that they couldn't exert as much influence as their male colleagues in decision makings, even when they possess essential expertise in the same domain (Nielsen and Huse, 2010: 19). Based on more than 7,000 survey from 1,100 females in US boardrooms or C-suites, Heath et al. (2014) found that female executives lack confidence at meetings. Some female directors report that they are ignored when trying to participate. Others report that they find it difficult to join the conversation. Also, female executives feel unable to advocate and back up their own perspectives when confronting male executives. The vulnerability that female directors show during discussions in turn confirms gender prejudice which assumes that females are less suitable for leadership and decision-making positions. As a result, decision making in the boardroom is more likely to be the outcome of "boy's club" conversation, rather than a product that involves contributions from both males and females. In this sense, a board with higher gender diversity is actually downsized in terms of the participants that actually make strategic decisions. In addition, prior research in workplace relationship also found that a higher proportion of women as minority in a group can in fact further reduce the opportunities of interactions between them and male counterparts (South et al., 1982). This decreases the possibility for the board to come up with and make use of new perspectives and diverse resources, which are fundamental in strategic change. Therefore, others being equal, we predict that,

Hypothesis 1: Board gender diversity is likely to be negatively related to strategic change.

2.2.4 Legitimacy of women on board: Gender of board chair

The fact that boardroom seats are mostly occupied by males confirms the sociological expectations about the high-low status distinction between male and female in top positions in firms. Consequently, it is reasonable to argue that in boardroom, female directors are presumably less liable and capable than male directors, who have higher status and are more likely to be accepted as legitimate leaders. We posit that gender stereotypes and status belief are reinforced when the board chair is male. In the context of a male board chair, he is likely to see gender minority status as a salient basis for social group categorization due to the statistical scarcity of female directors (Westphal & Stern, 2006). This is also considered as in our study as a default situation, where our predictions about the negative relationship between gender diversity and strategic change is intensified.

However, we argue that in the presence of a female board chair, the situation will vary. Status characteristics theory points out that salient characteristics, such as gender, are relevant in evaluating the status of group members, unless it could be demonstrated that gender may not be effective indicators of members' capability (Lucas and Baxter, 2011: 53). In accordance, two main approaches are considered to be useful in obscuring the gender characteristic and reducing the gap between male (high-status) and female (low-status) group members. One is to add positive information to members with characteristics of low status, and the other is to increase legitimacy of low-status individuals and make them more acceptable as candidates for high-status occupations (Lucas, 2003). The presence of a female board chair can contribute to both aspects. To begin with, her position provides important positive information to board members regarding the capability of a female. The role as the leader of boardroom clearly shows that low-status gender is not necessarily incapable of serving the duty as leaders (board members). Furthermore, the established high status of board chair also adds legitimacy to the women directors on board. Status characteristics research shows that the potential resistance faced by women leaders can be minimized in the face of organizational interventions (Lovaglia et al., 2006). For example, Lucas and Lovaglia (1998) found that when women are appointed to leadership positions on the basis of legitimacy, they are more likely to be seen as competent and capable of decision making as men (Lucas & Lovaglia, 1998). Another study conducted by Lucas (2003) further supported this conclusion by showing that once women's positions in leadership have been legitimated, women as leaders can gain as much influence as men without incurring negative perceptions from group members (Lucas, 2003). Based on Silicon Valley law firms, Phillips (2005) also found similar results by investigating the promotion of women to leadership positions. In boardrooms, legitimacy of female directors can encourage a higher level of participation from women's side, because it signifies that females can be as effective as males in resource provision and decision making process at top level. According to status characteristics theory, we predict that this positive information perceived by male directors can reduce their prejudice against female directors. In addition, it can also enhance female directors' confidence by providing a role model who signifies organization's supports and opportunities in advancing female leaders (Terjesen et al., 2009). Putting together, the presence of a female board chair will lead to higher and smoother involvement of female directors in strategic decision-making process, subsequently attenuating the negative relationship between board gender diversity and strategic change. Thus, we predict that,

Hypothesis 2: The gender of board chair will moderate the relationship between board gender diversity and firm's strategic change, in a way that when the chair is female, the negative relationship between board gender diversity and firm's strategic change will be diminished.

2.3 Methods

2.3.1 Data and sample

We followed several steps to obtain the sample for hypotheses testing. The initial sample consisted of all companies that showed on Fortune 500 list from 2003 to 2009. A company has to show in the Fortune 500 at least once in the six-year span in order to be included. Then, we checked the data availability of each company based on several major databases that we used for data collection, such as Execucomp, RISK METRICS databases and CompuStat. The information related to board composition, CEO characteristics and firm variables were extracted from 2003 to 2009. Data on board composition and CEO traits were obtained from Execucomp and RISK METRICS databases. CompuStat provides information on all financial firm-level and industry level variables. Any missing data was extracted from annual reports. This left us a final sample which consists of 1758 observations from 311 companies in total.

2.3.2 Measures

Dependent variable

Following our theoretical conceptualization, we operationalized *strategic change* in term of resource reallocation patterns in order to capture the extent to which firms' strategy varies over time (Finkelstein & Hambrick, 1990). This method has been frequently used to capture the strategic change in later research (Haynes and Hillman, 2010; Zhang and Rajagopalan, 2010). As suggested in Finkelstein and Hambrick (1990), six indicators were chosen to compose the measure of resource reallocation: advertising intensity (advertising/sales); R&D intensity (R&D/sales); plant and equipment upgrades (new plant and equipment/gross plant and equipment); nonproduction overhead (SGA expenses/sales); inventory levels (inventory/sales); and financial leverage (debt/equity). The six dimensions are suggested to be potentially under control of firm leaders and present an important aspect of firms' strategic profile (Finkelstein & Hambrick, 1990). We chose a four-year window and measured the variance of each indicator across the period from year t-1 to year t+2 (Finkelstein & Hambrick, 1990). Then the variances are summed up to composite a strategic change measure.

Independent and moderator variables

The independent variable *board gender diversity* was defined in our study as heterogeneity on board in terms of gender. It was measured using Blau's (1977) index, which is suggested to be able to capture the variations among group members (Harrison & Klein, 2007). We operationalize Blau’s index by using the formula

$$Board\ gender\ diversity = 1 - \sum {p_j}^2$$

Where p_j donates the proportion of group members in jth category (male or female).

The value range of gender diversity calculated from Blau’s index varies from 0 (no gender diversity) to 0.5 (equal number of females and males). *Gender of board chair* was recorded as a dummy variable. It was coded as 0 if the board chair is male, and 1 if the board chair is female.

Control variables

We also included a list of control variables that might influence the effects of the focal variables in our study. We controlled for *industry* because the industry in which a company operates may influence its tendency for strategic changes as well as the proportion of female directors. For example, research shows companies in various industries face different challenges, costs and benefits for the initiation and implementation of strategic change (Herrmann & Nadkarni, 2013). To control for industrial explanations, we created dummy variables for each firm’s industry at the two-digit SIC level (Carter, Simkins, & Simpson, 2003).

At the firm level we controlled for *slack, firm performance*, *firm age, firm size,* and *revenue*. Prior strategy literature shows that *slack* may affect strategic change (Cho & Hambrick, 2006). Therefore, we controlled for slack and calculated it as the ratio of current assets to current liabilities. *Firm performance* was included because it could influence the need to change (Quigley & Hambrick, 2012). It was operationalized as ROA, which is a measure commonly used in corporate governance research (e.g., Triana *et al.*, 2013). We also included a second indicator — revenue — to control for the influence of firm performance (Chapple & Humphrey, 2014). *Firm age* was included for two reasons. With regard to independent variable, prior literature found that it is correlated with female directors on board (Gul, Srinidhi, & Ng, 2011). Concerning strategic change, some studies argue that firm age can change the likelihood and magnitude of change (Rajagopalan & Spreitzer, 1997). It was measured as the nature logarithm of the number of years since the firm was founded. We use the logarithm of employee number to obtain firm size (Cho & Hambrick, 2006).

Besides, we also controlled for a series of CEO characteristics, board chair characteristics and board composition variables. *Board chair/CEO tenure* was measured as the number of years that the board chair/CEO had been in office. *CEO succession* is suggested to facilitate strategic change duce to new CEO's tendency to diminish the inertia (Goodstein and Boeker, 1991). *CEO duality* was measured as whether or not the CEO was also the board chair. It was coded as 1 if CEO held both positions simultaneously, 0 otherwise. A long-tenured CEO is considered to be a barrier to more strategic change (Miller, 1991; Rajagopalan & Spreitzer, 1997). *Board size* was measured as the number of directors on corporate board. The *proportion of outside directors* was obtained by dividing the number of outside directors by board size. We further controlled for the average external seats that are held by directors on board, since *interlocking directorates* may affect firm information acquisition behavior and resource allocation pattern (Peng, 2004).

2.3.3 Analysis

We chose generalized estimating equations (GEE) to test our model, because all firms in our sample have multiple observations over time. GEE is appropriate for longitudinal dataset and accommodates non-independent observations (Chatterjee & Hambrick, 2007). In the GEE model, we took Ballinger's (2004) suggestion and specified Gaussian link family and identity link function (J. B. Wade, Porac, Pollock, & Graffin, 2006). We also defined an autoregressive (one year) correlation structure to take into account that within-group observations taken close in time are more highly correlated, as suggested by prior strategy research (Crossland, Zyung, Hiller, & Hambrick, 2014; Engelen, Neumann, & Schmidt, 2013). Furthermore, we also follow Bednar (2012) to use robust variance estimator, which makes our analysis a conservative test (Bednar, 2012; Henderson, Miller, & Hambrick, 2006).

Our study also controlled for potential endogeneity problem that may rise because women directors could sit on boards due to a series of organizational factors (Hillman, Shropshire, & Cannella, 2007). Firms that appoint women on boards may differ from those that do not. Specifically, it is possible that these factors could be correlated with and influenced our dependent variable. Therefore, we used a Heckman two-stage model to correct for this potential endogeneity issue (Heckman, 1979). In the first step of our model, a probit regression is used to predict the factors that can affect whether a firm has a gender diverse board. In this model, all the explanatory variables that were used to predict the possibility of board gender diversity were lagged for one year in order to capture the causality. The residuals of this selection model were used to construct a new control factor, which was the Inverse Mills Ratio (Bednar, 2012; Dalziel, Gentry, & Bowerman, 2011). This ratio reflected the unmeasured information that is related to the presence of women directors and thus was incorporated in the second stage model as an additional control variable. All analysis was conducted under STATA 11.

We included four variables that might have impacts on our independent variable in the first stage probit model. Organizational legitimacy literature suggests that larger firms are under higher pressure to meet societal expectations (Meyer & Rowan, 1977), such as gender diversity in the leadership position (Hillman et al., 2007). Therefore, we predict that *firm size* affects a firm's decision to appoint women directors (Terjesen & Singh, 2008). We also considered *board size* in the probit model, as it is consistently identified as an effective predictor of women directors (Brammer, Millington, & Pavelin, 2007; Terjesen et al., 2009). Insufficient candidates of women directors may allow them to actively select host firms they prefer. This also fosters a tendency for women directors to show on boards of firms with better *firm performance*, which variable we also treated as a control factor in the first stage model (Farrell & Hersch, 2005). The last variable we incorporated in the probit model was *industry,* because some industries have relatively large female employment base, which may increase the likelihood of female presence in the boardroom (Hillman et al., 2007).

2.4 Results

Table 2.1 presents descriptive statistics and the correlation matrix. As can be seen from the correlation matrix, all the correlations between variables are below 0.7, which according to Tabachnick and Fidell (1996) shows that multicolinearity is not likely to bias our results.

We show the estimates of strategic change models in Table 2.2. As we discussed in method section, we have addressed potential endogeneity problem on the antecedents of board gender diversity by incorporating Inverse Mills Ratio in all of the three models. This suggests a greater robustness of our results. Model 1 represents the control model, in which all the control variables are included. Model 2 tests the effect of the independent variable on dependent variable. Hypothesis 1 predicted that there is a negative relationship between board gender diversity and firm's strategic change. Model 2 in table 2 shows that the effect of board gender diversity is negative and significant ($b=-2.14$, $p<0.05$). The result shows that this hypothesis is supported, and board gender diversity is likely to negatively contribute to firm's strategic change after we controlled for prior level of strategic change.

Hypothesis 2 predicted that gender of board chair moderates the relationship between board gender diversity and firm's strategic change. We proposed that when board chair is female, her presence can facilitate the participation of female directors and thus diminish the negative impact of board gender diversity on strategic change. The results in model 3 indicate that the main effect of board gender diversity is still significant ($b=-2.02$, $p<0.05$), and the interaction item has a positive and significant influence on strategic change ($b=6.62$, $p<0.05$).

To facilitate interpretation, the interaction effect is shown in Figure 2.1. As predicted in Hypothesis 2, when the board chair is a female instead of a male, the negative relationship between board gender diversity and firm's strategic change is diminished.

Table 2.1 Correlations and descriptive statistics

Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Strategic change	0.35	2.32	1.00														
Gender diversity	0.23	0.12	-0.08	1.00													
Gender of board cha	0.03	0.16	0.01	0.14	1.00												
ROA	0.05	0.09	-0.12	0.08	0.01	1.00											
Revenue	21144.26	37726.17	-0.04	0.17	0.01	0.09	1.00										
Slack	1.63	0.78	-0.04	-0.05	-0.03	0.09	-0.17	1.00									
Firm size	61.87	131.47	-0.02	0.16	0.00	0.05	0.61	-0.13	1.00								
Company age (log)	3.63	1.05	-0.05	0.18	0.01	0.11	-0.05	0.01	0.05	1.00							
Board size	10.91	2.31	-0.04	0.17	0.02	0.02	0.25	-0.15	0.15	0.14	1.00						
Proportion of outside director	0.75	0.14	-0.05	0.15	-0.01	0.04	0.04	0.00	-0.06	0.13	0.01	1.00					
Board chair tenure	11.48	9.73	0.03	-0.10	-0.09	-0.01	-0.04	0.08	0.09	0.06	0.02	-0.32	1.00				
Interlocking	2.10	0.85	-0.02	0.05	0.02	0.14	0.06	-0.08	0.03	-0.01	0.14	0.05	-0.11	1.00			
CEO succession	0.08	0.34	0.01	0.01	-0.03	-0.03	0.03	-0.03	-0.00	-0.01	0.06	-0.01	0.02	0.03	1.00		
CEO duality	0.62	0.49	-0.03	0.02	-0.04	0.01	0.06	-0.03	-0.01	0.12	-0.03	0.26	-0.29	0.07	0.00	1.00	
CEO tenure	8.36	7.12	0.04	-0.17	-0.05	-0.05	-0.04	0.07	0.01	0.05	-0.06	-0.19	0.48	-0.05	0.02	0.20	1.00

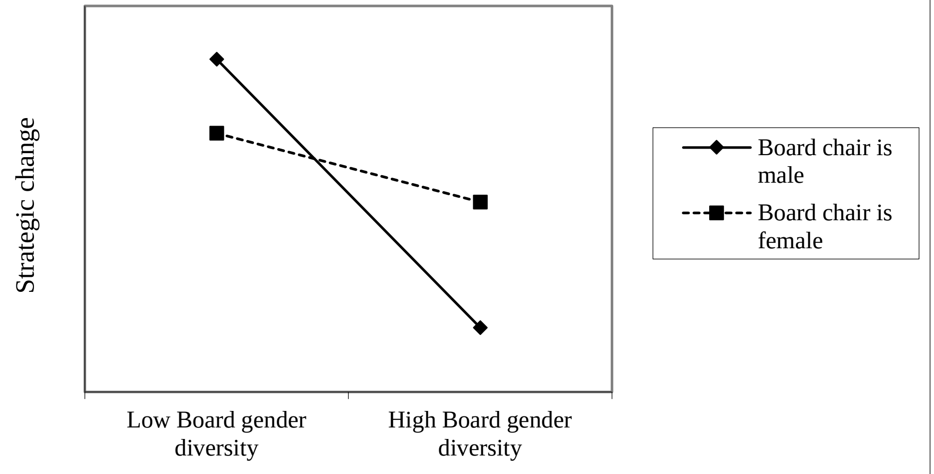
Notes: observations=1753. $|\text{correlations}| \geq 0.05$ are significant at $p \leq 0.05$

Table 2.2 Board gender diversity and firm's strategic change

Variable	**Strategic change**		
	Model 1(β)	**Model 2 (β)**	**Model 3 (β)**
Board gender diversity		-2.14**	-2.02**
		(1.00)	(0.97)
Gender of board chair		-0.23	-1.12**
		(0.26)	(0.53)
Board gender diversity X Gender of board chair			6.62**
			(2.63)
Prior strategic change	0.69***	0.67***	0.67***
	(0.25)	(0.25)	(0.25)
ROA	-2.17**	-2.30**	-2.37**
	(1.06)	(1.09)	(1.09)
Revenue	-0.00	0.00	0.00
	(0.00)	(0.00)	(0.00)
Slack	0.00	0.00	0.01
	(0.09)	(0.09)	(0.09)
Firm size	0.00	-0.00	-0.00
	(0.00)	(0.00)	(0.00)
Firm age (log)	-0.13	-0.11	-0.11
	(0.14)	(0.13)	(0.13)
Board size	-0.10*	-0.11*	-0.11*
	(0.06)	(0.06)	(0.06)
Proportion of outside director	-0.01	0.19	0.15
	(0.42)	(0.42)	(0.42)
Board chair tenure	0.01	0.01	0.01
	(0.01)	(0.01)	(0.01)
Interlocking	0.07	0.07	0.07
	(0.06)	(0.06)	(0.06)
CEO succession	-0.27**	-0.23**	-0.23**
	(0.11)	(0.10)	(0.10)
CEO duality	0.15	0.13	0.12
	(0.13)	(0.13)	(0.12)
CEO tenure	0.00	0.00	0.00
	(0.01)	(0.01)	(0.01)
Inverse Mills Ratio	-1.29*	-1.60*	-1.60*
	(0.72)	(0.83)	(0.83)
Constant	1.34	1.56	1.55
	(1.06)	(1.13)	(1.13)

observations=1087, *p<0.10, **p<0.05, ***p<0.01

Figure 2.1 The moderating role of board chair gender



2.5 Conclusions and Discussions

Drawing on role congruity theory and status characteristics theory, we discuss how gender dynamics on board of directors can have an impact on strategic change. Our results show that despite the potential access to various resources, a gender diverse board may have difficulties in internalizing these resources and utilizing them for firm's strategic change. This finding complements current literature on the strategic consequences of board gender diversity by providing a nuanced psychological perspective on gender dynamics between male and female directors on board of directors.

Consistent with our theoretical argument, we developed and examined two hypotheses. The first hypothesis tests the impact of board gender diversity on firm's strategic change. On the basis of the first hypothesis, our second hypothesis further considers how the behavioral dynamics between male and female directors on board can be influenced. By building on status characteristics perspective, the second hypothesis investigates how the perceptions of status beliefs and gender stereotypes could be altered in the boardrooms. Specifically, we take into consideration the salient role of board chair and examine whether chair gender can play a role in changing the impacts of female directors on corporate boards. Thus, the second hypothesis was formulated in a way to test the moderating role of board chair gender in the relationship between board gender diversity and firm's strategic change.

The results supported Hypothesis 1, showing that board gender diversity is likely to have a negative effect on firm's strategic change. The finding is consistent with the explanations of role congruity theory. As discussed in literature review, the theory indicates that prejudice towards women leaders can arise because of the incongruity between desired agentic qualities to be a good leader and perceived communal qualities associated with women. In the context of board of directors, women occupying board positions are likely to be perceived as violating the role congruity between gender and position status. Under this circumstance, it would be difficult for female directors to participate in board discussions and contribute their resources.

Hypothesis 2 was also supported, indicating that the gender stereotypes and status beliefs can be changed under certain circumstances. We study the role of female board chair in improving the status of female directors from two aspects. First, female chair provides positive information on the leadership role of female directors by challenging traditional gender stereotypes about the inferior leadership capability of women. Second, it also attaches legitimacy to women leaders through the established status of board chair. The analysis on the moderating role of female board chair strongly supported our theoretical argument.

2.5.1 Theoretical implications

Our study sheds light on two important research questions in strategic management and corporate governance research. The first is how does board gender diversity influence the level of strategic change? In recent years the link between boards of directors and strategic change has been increasingly recognized, and efforts are devoted to investigating the impact of board composition and characteristics on strategic change. Compared to the fruitful outcomes on other indicators of board composition, such as educational and expertise background, board gender diversity has received relatively little attention due to the small number of women directors. This study is among the first to examine the strategic role of boards from a gender perspective. According to status characteristics theory, women are attached with particular gender stereotypes and expectations. If they try to modify the perceptions by behaving like a male, backlash may emerge as punishment for violation of social norms and status beliefs. Therefore, women directors face a dilemma between confirming and disconfirming the stereotypes, which forms an obstacle that largely restricts women directors' influence in boardrooms. This will impose a negative influence on strategic decision making and diminish strategic change on firm level. Our work enriches the literature by adopting a social psychological lens to explain whether and when board gender diversity could be reflected in strategic outcomes.

On the basis of the first question, we further raise and explore the second question: "How does the relationship change when there is a female board chair?" Prior studies on board chair have been focusing on CEO duality, which is described as the combination of board chair and CEO role on one person. However, very few papers have looked into the characteristics of board chair and investigated the influence of board chair's characteristics in strategic decision-making process. Our result indicates that gender of board chair plays a crucial role in the relationship between women on boards and strategic change. The analysis shows that when CEO duality is controlled, characteristics (i.e. gender) of board chair can still have significant influence on the effectiveness of corporate governance mechanism (i.e., board gender diversity). When the incumbent board chair is a female rather than a male, her presence not only adds confidence to female directors and encourages their active involvement, but also attaches legitimacy to female directors' leadership position, which can alter the status belief of male directors and reduce their tendency to evaluate female directors less favorably.

2.5.2 Practical implications

The study provides implications for policy makers. In the last several decades, many countries, especially European countries, have imposed quotas for gender diversity in boardrooms. Norway is in the leading position as it has enacted a gender quota of 40 percent in corporate boardrooms. In contrast, US companies are not required to meet gender mandates when selecting directors on board. Our theoretical perspective shows that the perceptions of male directors on status differences are mainly due to scarcity of women directors, which leads them to be considered illegitimate. We argue that the situation should urge US government to legitimate the status of women in the leadership positions externally. An appropriate quota not only can increase the proportion of women directors on corporate boards, but more importantly, also can alter the traditional perception about the misfit between women qualities and leadership positions.

In addition, a series of follow-up policies are also demanded to complement quotas, which alone would not be enough to prevent prejudice. Kogut *et al.* (2014) suggests that quotas works to provide structural conditions to achieve gender equality in the leadership positions, but it may not eliminate discrimination against women directors. We echo their research and suggest that policy makers should develop other policies to back up gender quota legislation. One way of doing this is to systematically provide women with more opportunities in education and training, which aim to develop a pool of qualified women candidates for leadership positions in boardrooms. In short, gender quota forces companies to change and guarantees the proportion of women directors in the first place, and systematical training to women on society level enables companies to select enough qualified female candidates.

In addition, it's also important to create healthy and supportive micro environment through the efforts of individual organizations. The results based on US Fortune 500 companies reveal that a female board chair can help attenuate the less favorable perception from male directors in the absence of legislative mandates. However, according to Catalyst, females are still underrepresented in board chair position. As indicated in the annual board gender diversity report, the proportion of female board chair in US Fortune 500 has only increased from 2.0 percent in 2009 to 3.1 percent in 2013 (Catalyst 2009, 2013). In other words, while on average about 17 board seats out of 100 in Fortune 500 companies are occupied by females in 2013, only three percent of board chairs are females. Therefore, to enhance the participation of female directors and improve the benefits of gender diversity on corporate boards, it might demand more efforts from the side of companies to create more opportunities to facilitate the promotion of female directors to chair position.

2.5.3 Limitations and future research

This study inevitably has several limitations. To begin with, the study uses role congruity theory and status characteristics theory as theoretical tools to explore the underlying mechanisms that influence gender dynamics on board of directors. Therefore, we were not able to directly observe the behavior process of male and female directors on board. Future research may use interview or survey to further capture the perceptions of directors on gender beliefs and decision-making process during board meetings. We also look forward to seeing research using first-hand data to investigate the degree to which the presence of a female board chair can influence the perceptions of male directors towards female counterparts.

The second limitation in our study is that we didn't look at different characteristics among women directors. For example, women directors may have different levels of power in the boardroom because some are equipped with specific skills or social networks that make them especially important to the board and organization. These female directors, due to their special and important resources, may have more sayings on board, regardless of their gender as female. Future research can thus examine the background of female directors and explore how women with special resources behave and are treated differently in the boardroom. A series of relevant issues could be investigated. For instance, could the presence of powerful female directors improve the status of other female directors? Could they bring positive information to other female directors, as a female board chair does? Answering these questions can help us achieve a deeper understanding of the processes where the relationship between board gender diversity and strategic change could be established.

CHAPTER 3 Study 2. A New CEO but the Same Old Ways: Founder CEO Succession as Symbolic Management in Chinese Firms*

3.1 Introduction

How firms can adapt to the changing environment and renew strategies has been the focus of strategy and organization research for decades (e.g., Fiss & Zajac, 2006; Ginsberg, 1988; Gioia & Chittipeddi, 1991; Golden & Zajac, 2001; Sakano & Lewin, 1999; Wiersema & Bantel, 1992). However, what is still missing in the literature is how firms or leaders can manage outside cognition of strategic change in the focal firms. In other words, although research has revealed that strategic change occurs on both cognitive level and operational level, most has focused on the cognitive change inside the organization. In contrast, surprisingly little attention has been paid to how the cognition of external shareholders/stakeholders about the changes can be managed from inside the firm (Fiss & Zajac, 2006). This missing part is important, since whether and how stakeholders and shareholders understand the activities in the firm can influence their confidence and understanding of the focal firm, which constitute the legitimacy of a firm in its environment (Dimaggio & Powell, 1983).

Legitimacy is critical for a firm to acquire resources from the environment, since it shows whether an entity is conducting activities that are considered to be appropriate within the boundary of socially constructed norms (Suchman, 1995; Zott & Huy, 2007). At the early stage of the organizational life cycle, entrepreneurs or new ventures usually use various tactics to obtain legitimacy from environment. One way of doing this is to create organizational identity by telling stories and picturing visions (Lounsbury & Glynn, 2001). Research reveals that, by using symbolic actions to manage the impression of the organization, entrepreneurs can obtain legitimacy and acquire resources (Aldrich & Fiol, 1994; Higgins & Gulati, 2003). Studies show that since leaders in a firm are considered to

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serve symbolic function, their background and capabilities are fundamental for the firm to obtain external legitimacy (Hambrick & Mason, 1984). In line with this argument, symbolic management perspective suggests that firms may use symbolic actions in leadership structure change to satisfy outside shareholders and stakeholders (Westphal & Zajac, 1994; Zajac & Westphal, 1995). For example, Westphal and Zajac (1998) found that symbolic governance mechanisms (e.g., the adoption of long-term incentive plans, whether implemented or not) can function as a sign of interests alignment between the company and shareholders, and thus have significantly positive influence on market reactions (Westphal & Zajac, 1998b). In addition, some recent research also explores how elevated board turnover can be utilized as symbolic actions to satisfy external constituents in the event of disruptive CEO succession (Marcel, Cowen, & Ballinger, 2013).

In our study, we focus on firm's symbolic management by adopting a unique practice which usually occurs at early stage of firm development – founder CEO succession, which is considered as a turning point in firm's life cycle and perceived as an action to adapt to changes in environment (Greiner & Bhambri, 1989; Quigley & Hambrick, 2012; Pfeffer & Salancik, 1978). We propose that the founder CEO succession event could be utilized as symbolic actions, which can help the organization continuously obtain legitimacy and other resources from environment without substantive change in strategic decision making. Accordingly, we hypothesize that in the event of founder CEO succession, founder CEO's retention on corporate board as chair could have a negative influence on firm's strategic change. Further, we examine how the effect of founder CEO's retention is moderated by other conditions, of which we specifically focus on post-succession firm performance and founder tenure. We hypothesize that higher post-succession firm performance and shorter founder tenure are likely to attenuate the influence of founder CEO's retention as board chair on strategic change. With a sample of all the founder CEO succession events in publicly-traded companies in Shenzhen Stock Exchange from 1994 to 2010, we found strong support for all our hypotheses.

Our work has interesting implications for CEO succession, symbolic management, strategic management, as well as corporate governance literature. With respect to CEO succession, our study suggests that founder CEO succession differs from general CEO succession in multiple ways, and thus has distinct influence on external audience and strategic change. This study also contributes to CEO succession literature by showing that the relative power of new CEO can be influenced by the perceived performance of successor and perceived influence of predecessor (founder). The perceptions can further affect the credits and trust that are received by the new CEO and therefore can influence the likelihood of implementation of new strategic actions. Concerning symbolic management and strategic change literature, our work suggests how symbolic management through leadership structure can be utilized to obtain legitimacy and external resources without substantive changes. In addition, while most prior research recognizes the consistent effects of founders in a firm, little research has paid attention to the fact that they may exert their influence through retention as a board chair, which is always considered to be only "honorific" position (Wasserman, 2003: 154) as a return for founders' contribution. We examine how the position as a board chair can enable founders to consistently intervene into strategic decision making.

This chapter will be organized as follows. In next section we will first introduce the institutional backgrounds of this study, followed by the review literature in founder CEO succession and theoretical argument for considering founder CEO succession events as symbolic management. This also lays foundations for the development of hypotheses. Then we will present the sample, variables, and empirical results of the study. We will conclude the chapter by discussing theoretical and managerial implications.

3.2 Institutional Backgrounds

Since 1970s, Chinese companies have experienced tremendous transformation, which was further enhanced after 1993, when Company Law was first implemented and marked the commence of modern economic development era (Cheung, Jiang, Limpaphayom, & Lu, 2010). In the meanwhile, as the transaction and agency costs are gradually reduced during institutional transition, the range of technology that is introduced to Chinese companies are also widened (Child & Tse, 2001). In addition, a rapidly increasing number of Chinese companies are also investing and expanding towards international markets. The enhanced involvement in world economy also brings Chinese firms to recognize the criticality of obtaining a better understanding of the changing environments and meeting expectations from stakeholders (Tan & Tan, 2005). For example, modern corporate governance systems have been introduced to Chinese firms to facilitate the transformation process and help them better accommodate the demands from shareholders (Cheung et al., 2010).

In transition economies such as China, firms are situated in a constantly changing environment, where the uncertainty makes it difficult and inefficient for them to rely on the old strategies that led to success in the past (Hoskisson, Eden, Lau, & Wright, 2000). Furthermore, the globalization process, China's giant market, and its increasing importance in global economy since joining World Trade Organization (WTO) (Chow, 2003) together have given rise to both opportunities and challenges to Chinese firms. On the one hand, the exploding market has urged the firms to explore its potential scale and scope and enable them to grow fast (Zhang & Ma, 2009); on the other hand, these firms also confront uncertainties and risks that could appear from government regulations, intensified competitions and technology innovation (Peng, Tan, & Tong, 2004; Zhang & Ma, 2009). The need to cope with environments and the desire to survive require the firms to be equipped with open mind, fast adaptation capability and advanced management.

Leadership succession, especially the appointment of a new outsider CEO (who is not from the founding team or family), is likely to increase the perceived fit between organizations and external environment in Chinese context from at least three aspects. First, research shows that for organizations in turbulent environment, leadership succession could be beneficial to firm performance, since it can bring in new perspectives and fresh strategic orientation (Chung & Luo, 2013). Second, the prevalence of ownership concentration and the lack of transparency in corporate governance and management in emerging economies such as China often prevent minority shareholders from learning what is happening within the firms, which increases the necessity for an outsider to convey timely information regarding the actual operations and other activities within the organization (Young et al., 2008). Third, the introduction of advanced managerial practices through a more professional CEO could enhance the confidence of shareholders and stakeholders, as the lack of professional managerial knowledge and skills is considered to be a serious impediment to organizations in emerging economies in the context of global business (Cui, Liang, & Lu, 2015; Dharwadkar et al., 2000).

When taking these factors into consideration, we consider that Chinese listed companies provide an interesting research context for examining the topic of this study, because these companies have been exceptionally motivated to achieve positive feedbacks and evaluations from external stakeholders. Therefore, by observing the behavior of the Chinese listed companies, we can also obtain a better understanding of the institutional changes that have been taking place in an emerging economy during economic and political transition and how these changes can exert influences on those emerging economy enterprises and their development. This can also provide insights and inspirations for future research, especially for emerging economy studies.

3.3 Theories and Hypotheses

3.3.1 Characteristics of Founder CEO management and succession events

We refer to *founder CEO succession* as the succession events where the CEO position is handed over to a non-founder, non-family successor. CEO succession scholars has long recognized the distinct characteristics of a special type of CEO succession —founder CEO succession – and has distinguished the particular event from general CEO succession in research (Cucculelli & Micucci, 2008; Graffin, Boivie, & Carpenter, 2012; Haveman & Khaire, 2004).

There are at least three reasons that make founder CEO successions stand out from general CEO successions when investigating its implications for firm performance and strategic decision-making processes. First, founder, as the person who starts a venture and lays the foundation, can exert more influence on firms than non-founders (Jayaraman, Khorana, Nelling, & Covin, 2000; Villalonga & Amit, 2006; Wasserman, 2006). Their identity is also more likely than non-founders to be linked to the organization (Wasserman, 2003). For example, Nelson (2003) shows that founder CEOs can exert tighter controls on corporate governance structures (e.g., ownership structure and CEO duality). Founder's influence is also reflected in the event of an IPO, when he or she always holds a relatively high proportion of stocks. Second, founder CEOs' interests in running a company can differ from non-founders. As assumed in agency theory, a major corporate governance issue in modern firms is to prevent managers from maximizing their own interests at the expenses of shareholders' interests. However, in the case of founder-managed firm, founder CEOs' intrinsic motivation to improve firm performance makes them more likely to behave as a steward instead of an agent (Arthurs & Busenitz, 2003). Therefore, the motivation of CEO could also change as a consequence of a founder CEO succession. Third, the distinct motivation in running a company could also lead to a situation where the circumstances where founder CEO succession occurs differ from general CEO succession events. According to prior research findings, general CEO succession event could occur when the interests of CEO diverge too much from shareholders' interests (Wasserman, 2003) or firm performance doesn't meet the expectations from shareholders (Farrell & Whidbee, 2003). In contrast, founder CEO may leave after the venture has achieved critical milestones and good financial performance (Wasserman, 2003).

3.3.2 Founder CEO succession, legitimacy, and symbolic management

When the business is small, CEOs' founder/family status can equip them with the capability to build close relationships with suppliers, customers, and other stakeholders (Miller, Lee, Chang, & Le Breton-Miller, 2009; Miller, Minichilli, & Corbetta, 2013). However, when it grows larger and more complex, firm usually demands mature control systems with monitoring function in leadership structure. In addition, it is also required that firms can flexibly adjust its strategies to fit environmental changes. The advantage of a founder CEO is likely to be weakened at this later stage. For example, it becomes unlikely that he or she can still develop close personal relationship with stakeholders, who have been increasing greatly in amount. Furthermore, founder's tacit knowledge about the growing firm (Gomez-Mejia, Nunez-Nickel, & Gutierrez, 2001; Miller et al., 2013) would not be enough to deal with daily operations, growing business activities and complex strategic decision making. On the other hand, founder CEOs' disadvantages, such as lack of management skills and inexperience in management practices, become more apparent and detrimental to the firms. New management skills are increasingly required by investors and evolving organizational environments, whereas fundamental changes are not likely to emerge in leadership style of founder CEOs (Barrick & Mount, 1991; Certo, Covin, Daily, & Dalton, 2001). Therefore, when entrepreneurial firms become larger and mature, the replacement of a founder CEO by a professional CEO is desired by stakeholders and shareholders (Beckman & Burton, 2008; Charles, Hofer, & Mahon, 1980; Wasserman, 2003).

Indeed, research shows that investors are likely to be more confident in the firm when it is managed by a non-founder CEO (Certo et al., 2001; Pérez-González, 2006), especially when the firm is getting larger and older (Jayaraman et al., 2000). For example, Certo et al. (2001) found that CEO's founder status is positively related to IPO underpricing. Pérez-González (2006)'s study on founder CEO succession also found evidence that when founder CEO passes the position to an unrelated professional CEO, there is likely to be positive market reaction. Financial literature provides considerable evidence and explanations by arguing that information asymmetry constitutes the basis of investors' view of corporate governance (Healy & Palepu, 2001; Lang & Lundholm, 2000; Watts & Zimmerman, 1983). According to the theory, investors typically have less information about management capability of founder CEO, that is, whether they are able to identify and handle the opportunities and threats in external environments, and whether they can effectively adjust the firms to changing environments. However, the mature market of professional CEOs provides shareholders with a pool of potential eligible candidates for the position, and these professional CEOs have more experience, skills and reputation in (successfully) managing firms, which can be seen from their profile and career. Management capability as well as reputation is used by investors to eliminate the information asymmetry problems (Watts & Zimmerman, 1983) and is thus frequently used as a signal for the firm to bolster their legitimacy (Certo, 2003; Deutsch & Ross, 2003).

Not only does a professional CEO have the management skills to lead a mature firm, but he or she can also evaluate strength and weakness of a firm with more objectivity, which is crucial for effective operation and development of the firm. Information asymmetry literature also suggests that investors' perceived objectivity of CEO is largely reduced when he or she is a founder (Certo et al., 2001). For example, research shows that founders tend to be overoptimistic towards the future of their ventures, an attitude that may lead to the failure of the enterprises (Busenitz & Barney, 1997; Certo et al., 2001). In contrast, a professional non-founder CEO with more experience in management and less emotional embeddedness could be seen to be more accurate in appraising firms and strategic decision making (Certo et al., 2001). In summary, founder CEO succession can enhance the confidence of shareholders by aligning "visible attributes" (Westphal & Graebner, 2010: 18) of management and investors' beliefs about good governance practices (Suchman, 1995) and therefore can be used to obtain legitimacy. Specifically, founder CEO succession can influence all three types of legitimacy according to Suchman (1995). Pragmatic legitimacy, which involves interests of audiences, could be achieved since investors can get access to more information through non-founder CEOs (Certo et al., 2001). Furthermore, separation between ownership and control, which is also signified by the succession event, constitutes the basis of agency argument and thus meets the criterion of normative legitimacy, which reflects social beliefs about the right behavior (Jensen & Meckling, 1976; Suchman, 1995). Finally, along with the succession event is the transformation of an entrepreneurial firm, which is not equipped with systematic decision-making process, to a mature firm with professional and comprehensible governance structure, appealing to customers and investors about its cognitive legitimacy (Suchman, 1995; Westphal & Graebner, 2010; Zimmerman & Zeitz, 2002).

When a firm acts in a compliant way with external expectations (legitimacy) without substantive changes, it is considered to be symbolic (Fiss & Zajac, 2006). Symbolic adoption can bring value to the firm to the extent that it can result in positive reactions from audiences beyond the influence of actions on actors (Westphal & Graebner, 2010; Westphal & Zajac, 1994). In our case, by increasing congruence between visible actions and investors' belief about good managerial structure, founders use CEO succession to enhance investors' confidence in the focal firm's ability to adjust itself to changing demand for leadership and decision-making process. The first leadership succession also creates the impression that the founder is seeking to maximize the interests of investors and the firm, even at the expenses of his/her own interests. In other words, information asymmetry logic grants the legitimacy of this event. The legitimacy can bring symbolic value and benefit the firm by generating more positive reactions from investors (Beckman & Burton, 2008; Elsbach & Elofson, 2000) .

3.3.3 Founder's retention on board and strategic change

Because the replacement of founder CEOs by general CEOs at a later stage of entrepreneurial firms is anticipated by external audience and could be useful in obtaining and maintaining legitimacy, a firm may utilize the succession to satisfy the audience to get resources from the environments. However, despite its potential benefits to an entrepreneurial firm, such leadership change would dramatically weaken founders' influence in the enterprises created by them. Therefore, founders may face the dilemma of gaining resources for the firm or risking their existing status and power.

To eliminate the threat to their status, founder may use various tactics to reserve their power in the organization. One way of doing this is to retain on the board, usually as the chair. In general CEO successions, it is considered that the retention of predecessor CEOs may not serve the best interest of the firm or investors, as the predecessors may inhibit the initiation of strategic change by their successors (Lorsch & MacIver, 1989). As a result, former CEOs usually leave their companies after stepping down. However, under the circumstances of founder CEO succession, it is more common that founder CEOs remain in their firm, either as the board chair or an executive (Rubenson & Gupta, 1992; Wasserman, 2003). Their retention is often regarded as legitimate by investors, as this role is considered to serve the purpose of apprenticing the new CEO, and helping him/her to get familiar with the enterprise. For example, the successor might lack the tacit knowledge of what the initial image of the organization was and how the organization was developed. From the perspective of social network, the successor also needs founder’s supports in maintaining connections with existing networks, including informal relationships with customers and suppliers, as well as internal networks, which is considered to be critical to the success of new leaders (Cao, Maruping, & Takeuchi, 2006).

By retaining on board, founder CEOs may continuously involve himself/herself into strategic decision-making process and prevent substantive changes within the firm, yet without losing the legitimacy. The founder’s retention could bring critical challenges to the new CEO in renewing strategies. First of all, the founder has played a salient role in shaping the organization and has built an image of what the organization should be, either explicitly or implicitly (Graffin et al., 2012). As a founder, predecessor CEO can also command loyalty from other executives or directors (Carroll, 1984), an ability that can urge them to disfavor new strategies proposed by new CEO when the founder sees it as departing from initial envision. Further, professional CEO who succeeds the founder is also taken as the first “agent” in an organization (Jensen & Meckling, 1976), and the separation of ownership and control may lead the board and founder to be extremely careful in scrutinizing the successor CEO’s behavior and setting the compensation. The scrutiny can be negatively related to successor’s latitude of actions and, consequently impede the initiation and implementation of strategic change. Therefore, we predict that in the post-succession period, if the founder retains as board chair, strategic change is likely to shrink. The longer he or she stays after the succession, the less strategic change would take place. As such, we expect that,

Hypothesis 1: Founder CEO's retention as board chair after his or her succession is likely to decrease post-succession strategic change, such as that the longer the founder stays, the less strategic change will occur in the firm.

3.3.4 The moderating role of post-succession firm performance

Prior literature has suggested that the effects of CEO succession events are contingent on other factors (Karaevli, 2007). Specifically, we address the contingency issue from two aspects: post-succession firm performance and founder tenure as CEO. We argue that when the firm is performing well, the influence of founder CEO on firm's decision-making process is likely to be attenuated. Researchers have identified extensive evidence to show that firm outcomes are often attributed to CEO decisions (see Busenbark *et al.*, 2016 for detailed literature review). Firm-related outcomes can lead to praises and blames received by CEOs (Crossland & Hambrick, 2007; Hayward, Rindova, & Pollock, 2004). The attributions of performance may further influence the extent to which the incumbent CEO has discretion over strategic decision-making process and outcomes (Busenbark et al., 2016). Succession literature has provided extensive examination on the relationship between firm performance and CEO power (Daily & Johnson, 1997; Jenter & Kanaan, 2015; Ocasio, 1994). When the firm is not performing well, CEO has less power and bears the risk of being removed. For example, external constituents, such as security analysts can influence the board's decision to dismiss a CEO (Wiersema & Zhang, 2011). But when firm performance is high, CEO's discretion will be also increased accordingly, since the need to closely monitor becomes less necessary in this circumstance (Lorsch and MacIver, 1989).

In addition, leadership literature also provide evidence that firm performance can directly affect the impact of leaders in organizations (Meindl, Ehrlich, & Dukerich, 1985; Shamir, 1992). Specifically, it has been shown that when organizations have been performing well, people will attribute the success to the leaders (Meindl et al., 1985). For example, research shows that firm performance is positively associated with the top management perceptions of CEO charisma (Agle, Nagarajan, Sonnenfeld, & Srinivasan, 2006). Furthermore, CEO power is likely to grow when others attribute high firm performance to CEO's leadership (Busenbark et al., 2016) and when CEO is perceived as powerful in an organization (Finkelstein & D'Aveni, 1994; Ocasio, 1994). In conclusion, we argue that when the post-succession firm performance is higher, the discretion and power of the new CEO are likely to increase, and therefore the influence of founder CEO's retention on strategic change could decrease.

Hypothesis 2: The relationship between founder CEO's retention as board chair and firm's strategic change is moderated by post-succession firm performance, such that higher post-succession firm performance is likely to attenuate the negative relationship between founder CEO's retention as chair and strategic change.

3.3.5 The moderating role of founder tenure as CEO

We further consider that the relationship between founder CEO retention and strategic change can be also moderated by founder tenure as CEO. Previous research has suggested that the predecessor CEO's tenure is an important indicator to examine the succession event and predict its consequences on firm outcomes (Shen & Cannella Jr, 2002). We argue that in the event of founder CEO succession, longer founder's tenure in CEO position can enhance his/her influence in the organization and strengthen the negative relationship between founder's retention as board chair and firm strategic change.

CEO tenure is found to be significantly linked to firm's strategic choices (Boeker, 1997; Henderson et al., 2006; Simsek, 2007). Especially, extensive research has shown that the longer the CEO stays in the position, the more likely that he or she will stick to current strategy (Westphal & Fredrickson, 2001), which has been repeatedly defended and justified in the past (Downing, Judd, & Brauer, 1992) and makes the CEO overconfident in the match between the strategy and environment (Miller, 1991). As a consequence, the firm's capability to adapt to environment will also be reduced (Miller, 1991). Considering the fact that agent CEO has to meet the mandate that has been already set by board of directors while founder CEO is the person who first set the rules and initial strategy for the company (Wasserman, 2003), we suggest that the impact of tenure on reluctance to change is more salient when the CEO is founder. In addition, it has been argued that CEOs who have occupied the position for a longer time can exert more influence on top management team and board of directors, which will further enhance the organizational commitment to *status quo* (Hambrick, Geletkanycz, & Fredrickson, 1993; Shen and Cannella Jr, 2002). For founder CEOs, a longer tenure tend to intensify their influence on top management team and command more loyalty from boards of directors (Hambrick, Geletkanycz, & Fredrickson, 1993). This will further reduce successor's discretion on strategic decision-making process and make it less likely for the new CEO to initiate and implement new strategies. Therefore, we predict that,

Hypothesis 3: The relationship between founder CEO's retention as board chair and firm's strategic change is moderated by founder tenure as CEO, such that a shorter founder tenure as CEO is likely to attenuate the negative relationship between founder CEO's retention as chair and strategic change.

3.4 Methods

3.4.1 Sample and data sources

Since our research focuses on founder CEO succession events, a series of steps were taken in order to obtain the sample. Firstly, we identified all CEO succession events for Chinese companies listed on Shenzhen stock exchange (SZSE) over the period 1994-2010. This period was chosen for two reasons. First, company law, with the goal to regulate companies' behavior, was released at the end of 1993. This regulation signified the transformation of state-owned enterprises (SOEs) and introduction of modern corporate governance mechanisms in Chinese companies. Second, the provision on stock market provides new opportunities for funding, which also impelled the initiation and development of new enterprises in the following period. We found 2109 CEO succession events in 646 companies during the period.

Further, we used a series of methods to constrain the sample to only events where founder CEO is replaced. Firstly, we search the official website of these 646 companies and related press release to obtain background information, including founder, founding year, type of company (whether it is a private company, SOE, transformed SOE, or joint venture etc.). We use information disclosure, such as annual reports and meeting records to further identity and double-check the founders of these companies. To assure that we include all founder CEO succession events, we also read the background and detailed biography of the 2109 CEOs who leave the position. Using this method, we identified 91 founder CEO succession events in total. Based on these founder CEO succession events, we further collected data for each company for a four-year period (the succession year was treated as the starting year) or until the new CEO left. Due to missing data, the final sample consists of 226 firm-year observations.

We used Thomson One to obtain data on firm financial indicators, such as firm performance and strategic change. Data on industry, firm level and board level came from CSMAR database and annual reports. Variables regarding founder CEO succession event details, founder characteristics and successor characteristics were also collected from CSMAR. CSMAR has been widely used in business research on Chinese companies listed on Shenzhen and Shanghai stock market (Le & O'Brien, 2010; Miller, Li, Eden, & Hitt, 2008; Wei, Xie, & Zhang, 2005).

We conducted *T*-tests to detect whether there are significant differences between the initial sample and final sample. *T*-tests suggested that no significant differences in firm size (measured as log of employee number) or performance (measured as return on assets) could be detected between two samples, implying that systematic sampling bias is unlikely to influence our results (Lu, Liang, Shan, & Liang, 2015; Peng et al., 2007; Westphal & Zajac, 1995).

3.4.2 Measures

Dependent variable. For the dependent variable in our research, *strategic change*, we used resource reallocation to capture the changes in strategic outlays (Haynes & Hillman, 2010; Quigley & Hambrick, 2012). Prior literature suggests that the strategic roles of board of directors and CEOs are mainly confined to several key resource allocation functions, such as marketing, R&D, production, and finance (Westphal, Seidel, & Stewart, 2001). We further adjusted the selection of items based on Chinese context. Before 2001, there were no explicit regulations on the disclosure of R&D expenses in the annual reports of listed companies. Therefore, few listed companies had released any information on R&D during the period (Hou & Gan, 2009; Xue & Wang, 2001). Although in 2001 China Securities Regulatory Commission (CSRC) first released regulations on the disclosure of R&D information by listed companies, it didn't include explicit requirements on the periodic reporting of relevant information. As a consequence, listed companies in China still have considerate discretion when deciding whether or not to include the information of R&D in their annual reports (Hou and Gan, 2009). Given that our sample consists of all founder CEO succession events in Chinese listed companies from 1994 to 2010, we drop the item of R&D and focus on the remaining three items of resource reallocation strategy which are largely influenced by CEOs (Westphal et al., 2001): plant and equipment upgrades (net P&E/gross); nonproduction overhead (selling, general and administrative expenses/sales); inventory levels (inventory/sales) and financial leverage (debt/equity). Each indicator was standardized across all firm-years before adding up their absolute value to form an overall strategic change index. In order to capture the influence of founder CEO retention, dependent variable is lagged for one-year in analysis.

Independent and moderating variable. The independent variable in our study is *retention of founder CEO as board chair.* We follow Quigley and Hambrick (2012) to measure the retention of successor CEO. Specifically, the variable was measured as the ratio of months that founder stayed on board as chair to twelve months in a given year after the succession event. For example, if a founder stays on board as chair for six months in a given year, then his/her retention is measured by 6/12, which is 0.5. We used this measurement to precisely catch the time period that founder could still exert influence. *Post-succession firm performance* was measured by the log value of market capitalization in each year since the succession event. Market capitalization has been widely used in prior literature to capture firm performance and is considered to be able to reflect future expectations of firm performance (Hillman, 2005) *Founder tenure as CEO* was measured as the number of years that founder has occupied the CEO position before the succession event.

Control variables. We included a comprehensive list of control variables to constrain influences from factors other than independent variables in our study. The first control variable that we included was the *strategic change in prior year*. We then controlled for *industry* by including industry code for each company according to industrial classification regulation released by China Security Regulatory Commission (CSRC). On firm level, we controlled for *firm size*, which was measured as the natural logarithm of employees. Slack can reflect the resources availability is found to affect a company’s capability for potential changes (Cho & Hambrick, 2006). Therefore, we controlled for *slack*, which was calculated as the ratio of current assets to current liabilities. Further, we included a series of variables reflecting the characteristics of leadership structure in order to control for their potential effects on strategic change. *CEO duality* was included and measured as a dummy variable. It was coded as 1 if the same person occupied both CEO and board chair position in a given year; otherwise it was coded as 0. We also controlled for *board size*, *supervisory board size*, and *top management team (TMT) size*. They were measured as the total number of directors, supervisors and top managers respectively. In addition, we added control variables to capture founder characteristics. *Founder age* at the time of succession was controlled. *Founder succession reason* was also controlled. It was coded as 1 if the announced reason is to improve corporate governance structure; otherwise it was coded as 0. Finally, we added some control variables that are related to successor characteristics. *Successor selection model* was measured as whether the successor is a professional manager or selected from controlling shareholders. It was also coded as dummy variable (coded as 1 if the successor is a professional manager, otherwise 0). *Successor origin* was measured as whether the successor was from inside the company (coded as 1 if the successor is from inside the company, otherwise 0). *Interim successor,* measured as whether the successor occupied the position temporarily (coded as 1 if the new CEO is an interim successor, otherwise 0). *Successor industry experience* and *Successor CEO experience* were also controlled, since whether the successor has the experience working in the same industry or holding CEO positions in other companies could influence the trust received by the new CEO and also can affect his/her discretion in decision making.

3.4.3 Analysis

We chose generalized estimating equations (GEE) to test our model, because all firms in our sample have multiple observations over time. GEE is appropriate for longitudinal dataset and accommodates non-independent observations (Chatterjee & Hambrick, 2007). In the GEE model, we took Ballinger (2004) suggestion and specified Gaussian link family and identity link function (J. B. Wade et al., 2006). We also defined an autoregressive (one year) correlation structure to take into account that within-group observations taken close in time are more highly correlated, as suggested by prior strategy research (Crossland et al., 2014; Engelen et al., 2013). Furthermore, we also follow Bednar (2012) to use robust variance estimator, which makes our analysis a conservative test (Bednar, 2012; Henderson et al., 2006).

Correction for selection bias

Prior literature suggests that the issue of selection bias may come out of CEO succession research. For example, poor performance may lead to turnover of CEOs (see Giambatista, Rowe, & Riaz (2005) for a detailed review). To control for potential selection bias in our model, we follow Zhang and Qu (2015) and use Heckman two-stage estimation (Heckman, 1979) to correct for this issue in regression model. In the first step of Heckman model, we used probit regression to predict the factors that may affect the likelihood of founder CEO succession. In this model, all predictable variables were lagged for one year in order to capture the causality. The residuals of this selection model were used to construct a new control factor, which was the Inverse Mills Ratio (Bednar, 2012; Dalziel et al., 2011). This ratio reflected the unmeasured information related to founder CEO succession and was incorporated in the second stage model as an additional control variable.

Four variables were included in the first stage probit model. *ROA* was included, as it is considered as an important antecedent to founder or non-founder CEO succession events in various studies (e.g., Giambatista, Rowe, & Riaz, 2005; Huson, Parrino, & Starks, 2001). The second variable included was *founder ownership,* which can influence the likelihood that founder CEO is forced out (Wasserman, 2003). The third variable included was *firm size*. Organizational legitimacy literature suggests that larger firms have more pressure in meeting societal expectations (Meyer & Rowan, 1977), which also includes improving corporate governance structure in the leadership positions. The fourth variable that was added was *board independence,* which greatly signifies the firm's tendency to construct a mature corporate governance system within the firm (Armstrong, Core, & Guay, 2014; Petra, 2006). These four instruments have been found to impact the likelihood of founder CEO succession events but are not associated with strategic change (which were tested and confirmed in our models).

3.5 Results

Table 3.1 presents descriptive statistics and the correlation matrix. As shown, all the correlations between variables are below 0.5, which suggests that multicolinearity is not likely to bias our results (Tabachnick and Fidell, 1996). The estimates of strategic change models are shown in Table 3.2. As discussed, the potential issue of selection bias on founder CEO succession has been addressed in our study by creating and including an Inverse Mills Ratio as additional control variable in our models. This suggests a greater robustness of our results. We used Model 1 to Model 4 to test our hypotheses.

Hypothesis 1 predicts that founder CEO's retention on board as chair is likely to impede firm's strategic change level in the companies. In Model 1, we included all control variables (including Inverse Mills Ratio). Model 2 further incorporated the independent variable, founder CEO retention as board chair, and was used to test its effect on firm's strategic change. The results in Model 2 in Table 3.2 shows that the effect of founder CEO retention on firm's strategic change level is negative and significant ($b=-0.24$, $p<0.1$). The finding supported our hypothesis, suggesting that firms with founder CEO remaining on board as leader will have less strategic change after founder CEO succession event.

We used Model 3 to test the Hypothesis 2, which proposes that when post-succession firm performance is higher, the negative relationship between founder CEO retention as board chair and strategic change is likely to be attenuated. In Model 3 we added the interaction term between founder CEO retention and firm performance. The coefficient of founder CEO's retention remains negative and significant ($b=-7.01$, $p<0.01$), and the coefficient of interaction term is positive and significant ($b=0.88$, $p<0.01$). For illustration, we plotted the relationship in Figure 3.1. It shows that the slope (relationship between founder CEO retention and strategic change) is negative when firm performance is lower and becomes positive when firm performance becomes higher, supporting Hypothesis 2.

Hypothesis 3 states that when founder tenure as CEO is longer, he or she will exert more negative influence on strategic change. To test this hypothesis, we further added the interaction term between founder CEO retention and founder tenure as CEO. As shown in Model 4, the second interaction term is negative and significant ($b=-0.32$, $p<0.01$). Figure 3.2 illustrates the moderating effects and shows that in the context where the founder has served in the position of CEO for a longer time, his or her retention on corporate board as chair is likely to become negatively associated to strategic change. Therefore, Hypothesis 3 was also supported.

Table 3.1 Correlations and descriptive statistics

Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Strategic change	0.33	1.59	1.00															
Employee number (logged)	7.02	1.37	0.04	1.00														
Firm performance	7.91	0.87	0.03	0.43	1.00													
Slack	4.14	8.84	-0.00	-0.15	0.00	1.00												
CEO duality	0.28	0.45	-0.02	-0.03	0.05	-0.01	1.00											
Board size	8.63	1.96	-0.05	0.17	0.18	-0.06	-0.03	1.00										
Board independence	0.35	0.12	0.00	-0.02	-0.07	0.06	0.03	-0.40	1.00									
Supervisory board size	3.38	1.00	-0.03	0.08	-0.04	-0.03	-0.04	0.22	-0.08	1.00								
TMT size	6.10	2.58	-0.04	0.38	0.31	-0.07	0.03	0.35	-0.00	0.19	1.00							
Founder CEO retention	0.83	0.36	-0.05	0.14	0.15	0.05	0.14	0.01	0.04	-0.06	0.14	1.00						
Founder CEO tenure	3.50	2.16	0.09	0.31	0.10	-0.10	0.05	0.10	-0.02	-0.03	0.23	-0.11	1.00					
Founder CEO succession reason	0.26	0.44	-0.04	-0.04	0.01	0.03	0.07	0.07	-0.17	0.09	0.07	0.18	-0.05	1.00				
Successor industry	0.83	0.38	0.05	0.15	0.13	-0.08	0.06	0.17	-0.06	0.15	0.15	0.09	0.26	-0.08	1.00			
Successor CEO experience	0.39	0.49	-0.03	-0.00	0.01	-0.03	0.04	0.00	-0.07	0.02	0.01	-0.00	0.16	-0.02	0.16	1.00		
Successor government	0.07	0.26	-0.02	-0.18	-0.04	0.01	-0.02	-0.02	-0.05	0.00	-0.09	-0.09	-0.12	0.07	-0.28	0.16	1.00	
Successor origin	0.70	0.46	-0.03	0.20	0.02	0.00	-0.00	0.18	-0.01	0.18	0.11	-0.01	0.11	0.09	0.06	-0.08	-0.13	1.00

Note: |correlation|≥0.08 are significant at the .05 level.

Table 3.2 Founder CEO retention and Strategic change

Variable	Strategic change			
	Model 1 (β)	**Model 2 (β)**	**Model 3 (β)**	**Model 4 (β)**
Founder CEO retention as board chair		-0.24*	-7.01***	-5.56***
		(0.15)	(1.70)	(1.14)
Firm performance		-0.06	-0.75***	-0.77***
		(0.06)	(0.16)	(0.14)
Founder tenure as CEO		0.09	0.08	0.26***
		(0.09)	(0.07)	(0.07)
Founder CEO retention as board chair			0.88***	0.87***
X Firm performance			(0.21)	(0.13)
Founder CEO retention as board chair				-0.32***
X Founder tenure as CEO				(0.07)
Prior strategic change	0.35**	0.38***	0.39***	0.42***
	(0.16)	(0.14)	(0.12)	(0.10)
Employee number (logged)	0.00	-0.02	-0.09*	-0.02
	(0.03)	(0.05)	(0.05)	(0.03)
Slack	-0.00	-0.01	-0.01	0.00
	(0.01)	(0.02)	(0.02)	(0.01)
CEO duality	-0.00	-0.01	-0.05	0.07
	(0.11)	(0.12)	(0.12)	(0.08)
Board size	0.05*	0.04	0.05	0.10***
	(0.03)	(0.04)	(0.05)	(0.03)
Board independence	1.06	1.84	1.66	1.66*
	(1.54)	(1.60)	(1.40)	(0.94)
Supervisory board size	-0.04	-0.02	-0.01	-0.04
	(0.03)	(0.03)	(0.03)	(0.03)
TMT size	-0.01	-0.03	-0.02	-0.02
	(0.02)	(0.03)	(0.02)	(0.02)
Founder succession reason	0.07	0.04	0.06	-0.02
	(0.10)	(0.11)	(0.10)	(0.06)
Successor industry experience	0.07	0.00	0.04	-0.01
	(0.10)	(0.11)	(0.12)	(0.08)
Successor CEO experience	0.01	-0.04	-0.03	0.05
	(0.08)	(0.09)	(0.08)	(0.06)
Successor government experience	-0.23	-0.10	-0.26	-0.31***
	(0.23)	(0.19)	(0.21)	(0.11)
Successor origin	-0.31	-0.26	-0.19	-0.09
	(0.22)	(0.18)	(0.13)	(0.09)
Inverse Mills Ratio	0.58	0.06	-0.03	-0.07
	(0.68)	(0.63)	(0.61)	(0.56)
Constant	-0.74	-0.17	5.02***	3.36**
	(0.67)	(0.73)	(1.40)	(1.58)
Industry dummies	Included	Included	Included	Included

*p<0.10, **p<0.05, ***p<0.01

Figure 3.1 The moderating role of post-succession firm performance

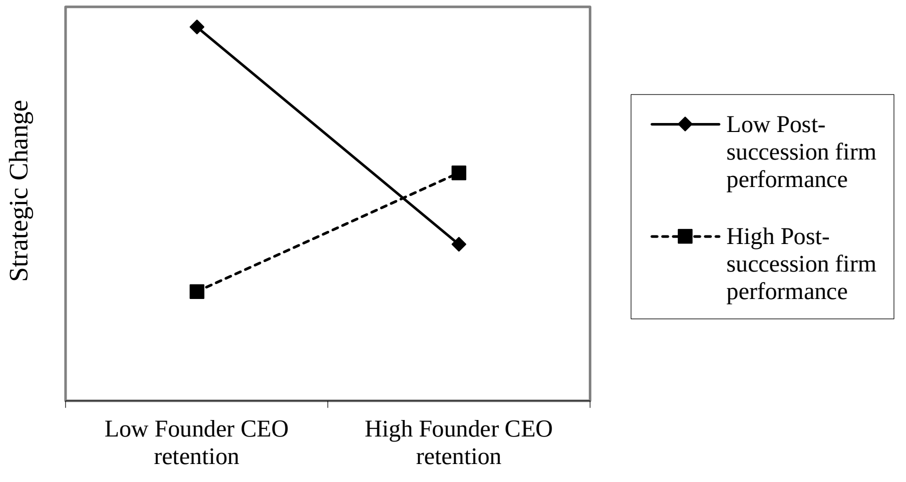
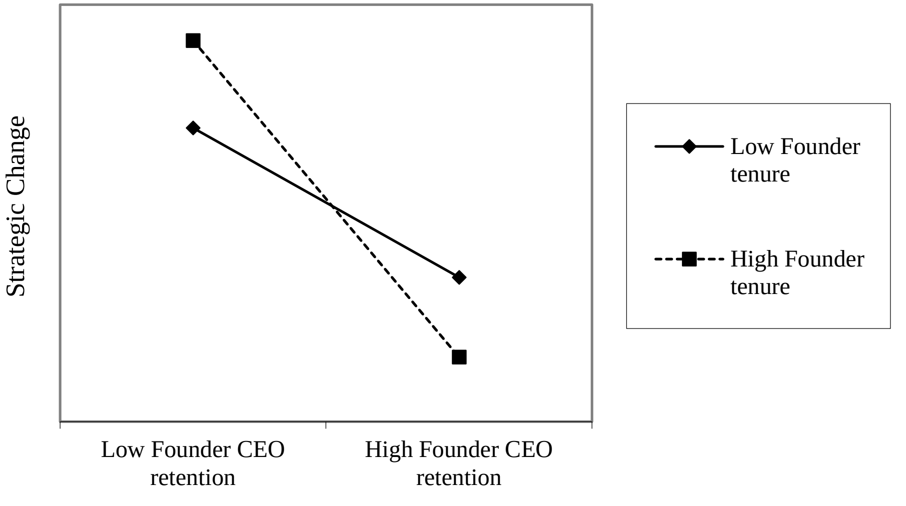


Figure 3.2 The moderating role of founder tenure as CEO



3.6 Conclusions and Discussions

In this study, we take the perspective of symbolic management and examine how changes in the leadership structure could serve a symbolic function to help a company obtain legitimacy. As a firm grows, it demands more resources and positive evaluations from external audiences to achieve sustainability. To achieve this end, the firm faces increasing pressure to meet the expectations from related stakeholders. An efficient way to enhance audiences' confidence is to show that the firm is on the right track to become a mature firm with comprehensive governance structure and professional decision-making process. We focus on a unique event — founder CEO succession — in firms and argue that this event could be seen as an action to satisfy external audiences and obtain legitimacy. However, the founder may reserve his/her power over decision-making process through other "legitimate" ways, such as retaining on board as chair. This seemingly honorific position actually makes the founder CEO succession merely a symbolic action which satisfies audiences without substantial and expected changes that are supposed to take place within the firm during post-succession period.

Consistent with our theoretical argument, we developed and tested our hypotheses in Chinese listed companies. We predicted that the retention of founder CEO on corporate boards as chair could largely impede the occurrence of strategic change in firms. This relationship, however, is contingent on succession and post-succession context. We specifically focused on post-succession firm performance and founder tenure as CEO, as both variables could affect the relative power between the founder and the successor. All the predictions were supported by our results based on Chinese listed companies in Shenzhen Stock Exchange. Results showed that after we included a comprehensive list of control variables, such as firm's capability, founder/successor characteristics, and succession context, the main relationship between founder's retention as chair and strategic change is negative and significant. This indicates that the founder CEO succession event could only serve a symbolic function rather than the signal of substantive change within the firm. As a matter of fact, founder's retention enables him/her to exert influences and prevent successors from initiating and altering strategic decisions. Retained founders may still derive legitimacy benefits for their firms by succession, even if this event alone is decoupled from the effect of their retention as board chair. The analyses further revealed that the negative impact could be attenuated or even reversed under certain conditions. The better the firm performs after the succession, the less likely that the founder's retention as board chair will exert a negative influence on firm strategic change. Similarly, in firms that founders have taken the CEO position for a shorter period before succession, the negative relationship between founder's retention as chair and strategic change is likely to be weakened.

3.6.1 Implications

Our study has important implications for CEO succession research, corporate governance literature, strategic management literature as well as symbolic management study. First, distinct from former research on CEO succession which mainly focuses on its relationship with firm performance and strategy, our adoption of symbolic management perspective provides a new lens to scrutinize this important event in organizations. Although the persistence of founder influence has been widely discussed in practice, relatively little attention has been paid to the issue in academic circles (Nelson, 2003). Our study shows that the founder can retain their power over corporate strategic decision making even after they step down as firm CEO. This can be achieved by their consistent intervention in firm's issue through other approaches. We further add knowledge to succession literature by showing that the pre-succession and post-succession context could play an important role in the consequences of CEO succession (Karaevli, 2007).

Secondly, we contribute to corporate governance literature by exploring how founders manage to balance the relationship between reserving power and obtaining legitimacy from external audiences through his/her retention on boards of directors. As discussed before, as a firm becomes larger, a professional CEO is more desired than a founder CEO, who is usually perceived to be less objective in evaluating firm's capability and has less management skills in practice. To solve the dilemma, founders can use the symbolic action of stepping down as CEO to convey information to external constituents about the firm's intention to maximize audiences' interests and desire to comply with normative prescription of good governance practices. This also intensifies the perception of audiences that the firm seeks to improve the quality of managerial structure and decision-making processes. However, the seemingly legitimate retention on boards of directors reserves the access for founders to be actively involved in board functions, which in combination with their unique status in firms, can greatly alter board outcomes. By examining founder's role transfer from a “founder CEO” to a “founder chair”, this study also echoes Quigley and Hambrick (2012)’s call for more new perspectives on CEO duality.

Thirdly, we also seek to add knowledge to symbolic management and strategic change literature by showing how symbolic actions in leadership structure can be utilized to manage the impression of investors about the perceived strategic change, despite a lack of actual changes. Fiss and Zajac (2006) suggested that much more research are still demanded to examine different forms of symbolic actions concerning strategic change. Our focus on founder CEO retention provides a novel perspective in this regard and helps achieve a better understanding of how symbolic management of strategic change can be realized through various mechanisms across different levels. Equally important, we also provide evidence to show that the decoupling is likely to diminish or disappear when the new CEO is powerful and has gained more credibility. In doing this, this study also provides inspirations for future research in the exploration of symbolic management in leadership structure.

3.6.2 Limitations and future research

This study inevitably has several limitations as well. To begin with, although symbolic management perspective provides strong theoretical rationale for the impact of founder CEO retention as board chair on subsequent firm strategic change, we were not able to observe directly how founders keep exerting power on corporate boards and decision-making process. Future research, especially qualitative research may further complement our work by providing more direct observations regarding board decision-making process when founder CEO stays as board chair. Secondly, our work only focuses on one symbolic action regarding the behavior of founder. It would be very interesting if future research can examine the relationship between different symbolic actions in the context of strategic change. For instance, in the situation of founder CEOs succession, founders may also use verbal expression to enhance perceived legitimacy of founder CEO succession. Explicit description about the firm’s conformity to expected routines is considered to enhance the firm’s cognitive legitimacy with investors (Suchman, 1995; Westphal & Graebner, 2010). Researchers can take into consideration other symbolic or substantial actions and examine how their interactions can invoke different reactions from audiences and how these actions can serve the interests of the focal firm. Finally, considering that we only focus on founder CEO succession events, our theoretical model and predictions were also made on the basis of the special circumstances surrounding the first succession event. Future research could extend the current study by looking at the succession events where a star CEO is replaced, given that previous research has shown that both scenarios could produce similar consequences on board behaviors (Graffin et al., 2012).

CHAPTER 4 Study 3. The Influence of Politically Connected Independent Directors on Firm Performance in Chinese Listed Companies: Applying Identity Theory to Board Research*

4.1 Introduction

In recent years, there have been a lot of ongoing discussions in the corporate governance field about the role of board independence and its implications for firm performance (e.g., Armstrong, Core, and Guay, 2014; Desender *et al.*, 2013; Deutsch, 2005; Duchin, Matsusaka, and Ozbas, 2010). Although the traditional agency perspective suggests a positive relationship between board independence and firm performance (Jensen and Meckling, 1976), empirical studies have found inconsistent results, suggesting that board independence *per se* might not be the effective predictor of firm performance (e.g., Dalton, Daily, Ellstrand, & Johnson, 1998; Eisenhardt, 1989; Kor, 2006; Westphal & Zajac, 1998). Conflicting results have prompted calls for research that goes beyond the ideology of the traditional agency perspective to investigate the underlying mechanisms that may bridge independent directors (IDs) and firm-level outcomes.

It can be inferred from agency theory that IDs are assumed to play an equally active role when executing monitoring functions, while little attention has been paid to IDs' behavioral patterns, not to mention how individual ID's behavioral patterns are shaped (Hambrick, Werder, & Zajac, 2008) and why they have implications for firm performance. The missing part is important, since a better understanding of the underlying mechanisms that shape IDs' behavioral patterns can provide new insights into the undefined role of board independence – IDs may behave differently in board processes to serve particular expectations, regardless of their "independent director status". This gap and the taken-for-

* The paper developed based on this chapter is preparing for the 2nd round Revise & Resubmit at *Management and Organization Review*. Earlier versions were presented at the European Group for Organizational Studies (EGOS) Conference in Montreal, Canada in July 2013, the European Academy of Management (EURAM) Conference in Valencia, Spain in June 2014, and the Academy of Management Annual Conference in Philadelphia, US in August 2014.

granted function of IDs have urged our research, which applies identity theory to corporate governance research and explores how professional identity of individual IDs can affect their behavior in board processes. We focus on the professional identities of IDs, because these identities are tightly associated with people's activities in work settings (Dutton, Roberts, & Bednar, 2010). We contribute to the growing literature on director identities by taking into consideration IDs' professions and how the identities derived from their professions are associated with their behavior on corporate boards. Identity theory suggests that individuals' identity can be used to predict behavior when the identity and behavior have shared meanings (Burke & Reitzes, 1981; Stryker & Burke, 2000). In accordance, a director's professional identity can be seen as a strong predictor of his or her strategic behavior and monitoring orientation because these identities can be invoked in board processes, a work setting that usually shares common meanings with professional identities. In this regard, we argue that an identity perspective provides a potentially valuable lens to examine the underlying mechanisms that shape IDs' behavioral patterns and influence their functions on corporate boards (Fahlenbrach, Low, & Stulz, 2010; Fich, 2005; Hillman, Nicholson, & Shropshire, 2008).

Against this backdrop, the present research examines the link between IDs' professional identities, their behavior and firm performance. Specifically, we focus on an intriguing phenomenon in Chinese listed companies: officials and bureaucrats as IDs on boards (Peng, 2004), who we refer to as *politically connected IDs* in our study. The decentralization process through China's economic and political transformation has redistributed economic power among different levels of governments and institutions. In this process, central government has gradually decentralized the control of local economic decision making to local governments, including the management of local companies (Chen, Li, Su, & Sun, 2011; Fan, Wong, & Zhang, 2007). The power redistribution in the economic system and the demand for IDs with high social status jointly give rise to two important types of IDs with political backgrounds in Chinese listed companies and rationalize our focus in this study: *local government officials* (LGOs), and *industry association officials* (IAOs). Our work suggests that their respective role identities shaped during the fulfillment of their professions can lead to divergent patterns and orientations in their behavioral process on corporate boards. This influence will be ultimately reflected in firm-level outcomes through their influences on board processes.

Our study has important implications for corporate governance literature, business-government relationship research, and identity theory. In relation to corporate governance literature, our work provides explanations for the inconsistent findings regarding the effectiveness of board independence. It adds knowledge to the small but growing number of studies that have addressed the relevance and importance of psychological perspectives in board research (Hillman, Nicholson, & Shropshire, 2008). Consistent with the identity perspective, which argues that an identity can be activated when the identity and behavior share a common meaning, we propose that the professional identity derived from politically connected IDs' professions as officials is salient when they conduct board duties, and therefore can be utilized to predict individual directors' behavior relevant to board issues. Thus, instead of considering IDs as a homogenous group, we treat IDs as a diverse group whose members serve different goals on corporate boards. In regard to business-government relationship research, our work presents a novel approach to investigate the interactions and interdependence between firms and governments. Prior research has shown that government can achieve the goals of economic development or realize political objectives through intervention in the strategic decision making of individual companies (Estrin, Meyer, Nielsen, & Nielsen, 2016). Instead of merely focusing on the potential political resources that could be brought in by IDs, we take a step further by examining the underlying reasons for whether and by which means these directors are willing to use the resources. Our framework and findings built upon Chinese listed companies are not only highly relevant in emerging economies, where government and institutions intervene in business activities in numerous forms, but also have important implications for developed economies, where the appropriate level of government's involvement in firms' corporate governance is still to be decided (Okhmatovskiy, 2010). In doing this, we also echo the call for more investigations into non-executive board members, who might represent various governments and institutions and reflect the interests of the respective groups by influencing firm strategies (Estrin et al., 2016). With respect to identity theory, our work contributes to the sporadic research on the important construct of professional identity, which is considered to be especially important for organizations in dynamic environments (Ashforth, Harrison, & Corley, 2008; Chreim, Williams, & Hinings, 2007).

This study will be organized as follows. The next section will provide the institutional backgrounds to the study. Following the introduction of institutional background, we will review research on IDs and identity theory to explain why we suggest a professional identity-based view of IDs. This also provides foundations for our theoretical development of hypotheses. Then we will present the sample, variables, and empirical results of the study. We will conclude the study by discussing theoretical and managerial implications and suggesting new avenues for future research.

4.2 Institutional Background

Most of the listed companies in China were transformed from traditional state-owned enterprises (SOEs), making untradeable state shares and state legal person shares prevalent in Chinese listed companies. Since these untradeable shares are controlled and owned by the largest shareholder (in most cases the state or state regulatory institutions), boards of directors and top management teams (TMTs) are also easily controlled by the single shareholder, leading to a situation where there is a large degree of overlap between the members of the board and TMT and they serve two functions concurrently. For more than 80 percent of Chinese listed companies, according to an investigation report released by the China Securities Regulatory Commission (CSRC), at least 60 percent of directors were insiders (who were also top managers in the focal company) by the end of 2000.

As the development of the Chinese stock market and the transformation of traditional state owned enterprises proceeded, the historical problems in concentrated ownership became more visible and had threatened the development of the capital market and the competitive capability of listed companies. On the one hand, listed companies and minority shareholders were expropriated by the largest shareholders or by parent companies. On the other hand, the old two-tier structure did not obtain the expected functions. The supervisory board, which was designed to enforce the monitoring function of governance structure, still did not function as expected. Under this circumstance, CSRC introduced the mechanisms of IDs from developed economies to complement the two-tier governance structure and prevent insiders and largest shareholders from controlling listed companies. However, scholars have cast doubts on the "independence" status of the IDs on Chinese boards and argue that maximizing the interests of minority shareholder might not be dominating their behavior on corporate boards (Su, Xu, & Phan, 2008).

On the other hand, the unstable environment and weak legal framework in China have significantly increased the importance of political connections ('guanxi') in business activities, because these connections are often seen as unique conduits that can provide firms with access to various resources (e.g. bank loans) and enable them to receive favorable regulatory treatment (Li, Meng, Wang, & Zhou, 2008). A common way for firms to obtain these connections is to appoint government or institution officials to sit on corporate boards as IDs (Yu, Zhou, & Pan, 2015). Our study particularly focuses on IAOs and LGOs, due to the fact that political and economic transformation has resulted in decentralization throughout Chinese society, especially in the supervision and intervention of Chinese firms. Before the reform, political and economic power had been strictly concentrated and controlled by central government. The policy proved to be detrimental to economic development in China, since it had imposed strong restrictions on the latitude of local governments' actions, and also resulted in inefficiency of resource exploitation due to local governments' reliance on central government for decision making. Therefore, as an important step in economic transformation, central government has gradually decentralized the control of local economic decision making to local governments, including the management of local companies (Chen, Li, Su, & Sun, 2011; Fan, Wong, & Zhang, 2007).

The transformation of the central planning economic system redistributes the rights of resource allocation among different levels of government bureaucracies and firms, and the control of resources enables institutional entities to participate in firms' strategic decision making. Among the participating entities, local governments and industry associations have both played a salient role in business activities during the process of economic transformation and power decentralization. For instance, local governments can intervene in operation of local firms by either granting preferential treatment or imposing taxes (Chen, 2003; Chen & Li, 2001). Industry associations, on the other hand, take over some traditional business functions from central government, such as providing technical support, issuing industry planning, and setting industry standards (Yu, 2002). With this summary of the institutional background as a backdrop, we now build a theoretical model to examine the behavioral patterns of these IDs and the implications for board process and firm performance.

4.3 Theoretical Background and Hypotheses

4.3.1 Traditional perspective on IDs

Traditional agency perspective sees IDs as essential in reducing potential agency problems (Eisenhardt, 1989; Kor, 2006). In addition, it also holds that IDs can question the decisions made by top managers and urge managers to develop new strategies (Hoskisson, Hitt, Johnson, & Grossman, 2002; Mizruchi, 1983). The common way to capture board independence is to use the proportion or number of IDs as proxy (Dalton et al., 1998; Hillman, 2005). Although agency logic postulates that more IDs on board can lead to better firm performance, empirical studies have found considerable amount of contradicting results (e.g., Bhagat & Black, 2002; Dalton *et al.*, 1998; Kor, 2006). Some studies pointed out that there should even be a negative relationship between IDs and firm outcomes. For instance, researchers in support of stewardship theory found that proportion of outside directors is negatively related to shareholder wealth (Kesner, 1987; Muth & Donaldson, 1998). Based on data from Australian boards, Kiel and Nicholson (2003) also showed that the proportion of inside directors has a positive effect on market-based measure of firm performance. Furthermore, some research found no effect of board independence on firm performance. For example, based on meta-analyses of 54 empirical studies, Dalton et al. (1998) showed that no systematic relationship between board independence and firm's financial performance can be detected. Bhagat and Black (2002) also showed that board independence has no influence on firm performance in the long run. In response to these mixed results on the effectiveness of independent boards, more recent research began to doubt the direct link between board independence and firm performance and called for more investigations on board process to promote a better understanding of board function and board independence (Hambrick, Werder, & Zajac, 2008; Hillman, Nicholson, & Shropshire, 2008).

4.3.2 Towards a professional identity-based view on IDs

Identity theory provides a potentially valuable psychological perspective to address this phenomenon. Identity theory links individuals' identity to their behavior. An identity attaches consistent meanings to a person and reflects itself in people's behavior (Stets & Burke, 2000). The core of identity theory lies in persons' identification of self by internalizing expectations of roles, which eventually shape persons' behavior and performance of these roles (Burke & Tully, 1977; Stets & Burke, 2000). Identity theory suggests that individuals need to adopt and accompany the expectations of roles and make efforts to preserve the expectations (Thoits & Virshup, 1997; Stets & Burke, 2000), since their behavior relates to various costs (Burke & Reitzes, 1981; McCall & Simmons, 1978; Wang & Cheng, 2010). From this angle, identity theory is role-based and emphasizes the match between a person's occupation and subsequent behaviors involving the occupation (Burke, 1980).

According to identity theory, individual's identities are formed through the process of identification, and multiple identities can occur because individuals may occupy different positions. The multiple identities within an individual are arranged in a salience hierarchy, which reflects the importance of different identities in a certain circumstance (Stryker & Burke, 2000). Salience of an identity, accordingly, is defined as the probability that a particular identity could be activated in a variety of situations (Stryker, 1968). Identity scholars suggest that a particular identity can only be invoked and impose influence on individual's behavior when the identity and behavior share common meanings (Burke & Reitzes, 1981; Stryker & Burke, 2000).

When a professional role is enacted, it brings about professional (role) identity (Pratt, Rockmann, & Kaufmann, 2006). In their work on professional identity construction, Pratt et al. (2006) suggests that professionals are to describe what individuals do in their work (Pratt *et al.*, 2006: 236). Consistent with role identity, professional identity is defined as individuals' identification of self as a member of a profession or occupation (Chreim, Williams, & Hinings, 2007; Ibarra, 1999). Similarly, the focus of this study, professional identity of IDs, is defined as IDs' self-definition as a member of their own profession. Professional identities can be activated in board process and have a bearing on people's behavior because the situation (board meeting) makes individuals' professional identity more salient than other identities. In contrast, a director's identity as husband or wife couldn't predict his or her strategic plans in board meetings because this particular identity and behavior do not share meanings in this particular situation. Indeed, prior studies found evidence that that professional background of directors can be used to predict their behavior on corporate boards. For example, in a recent study on US publicly traded companies, Huang *et al.* (2014) found that directors with investment banker professional background are more likely to urge companies to make more acquisitions.

In accordance, politically connected IDs' professional identity as officials is internalized in these individuals as important and salient identity in work settings. This argument has been widely supported by prior research. For example, Egeberg (1999) showed that the particular profession as officials plays a salient role in decision-making process of individuals across various situations. This salient role identification as government officials is further backed by institutionists, who suggest that occupations related to institutions, compared to general occupations, have larger influence on individuals' strategic orientations (e.g., March & Olsen, 1995; Rothstein, 1996), as value (rather than technical skills) embedded in institutions can relate people to their occupation in a more internal way (Selznick, 1957). Indeed, Lægreid and Olsen (1984) identified occupations in government or institutions as the only important background factor that can influence bureaucrats' decision-making behavior. With Chinese political and economic context as backdrop, we argue that politically connected IDs' professional identity is especially likely to be invoked in business environments because of the tight and interdependent relationships that exist between different levels of governments and business in various activities.

4.3.3 Politically connected IDs with professional identity and firm performance

4.3.3.1 Professional identity as IAOs and firm performance

An industry association is a non-profit organization that operates as a bridge between government and firms and an intermediary among firms within a particular industry. Doner and Schneider (2000) categorized industry association's contributions to economic performance into market-supporting and market-complementing activities (Doner & Schneider, 2000: 263), which reflect the two main functions of an industry association. With regard to the market-supporting function, associations can support the focal industry by directly delivering or urging government to provide public goods, such as property rights and public infrastructure. In this way, industry associations undertake the duty of administration on behalf of central government, making itself an extension of government function. The market-complementing function of industry associations is mainly reflected in their activities in coordinating firms in the focal industry. To overcome or compensate for market failure, industry associations are supposed to create an environment that promotes healthy competition inside the industry by building standards and norms. In addition, reducing transaction costs and improving the effectiveness of business operation and corporate governance of individual enterprises are also the targets of industry associations. Overall, industry associations are expected to fulfill external function that focuses on the interactions between the focal industry and environment (such as governments and other industries) and internal function that emphasizes healthy competitive and cooperative relationship among industry members (Yu, Shen, & Wu, 2011).

Economic reform and decentralization in China have fostered various organizations and institutions that take over traditional duties of governments. As one of these entities, industry associations have become an important new bond that connects important participants in markets (Xu, 2003). First, this tie can reflect the collective interests of industry members (Cammett, 2007). Second, it can also convey industry information to government and increase the chance that industry demand would be considered when developing new central policy (Pyle, 2009; Whitfield & Therkildsen, 2011). Industry association has an integrated mechanism of connecting individual firms and protecting their interests. In the process, it encourages collaboration and reduces the costs of communication and negotiation among industry members.

Investigations of Chinese IDs show that IAOs increasingly serve on Chinese corporate boards (Dai, 2014). Regarded as a conduit between individual companies and external constituents, the professional identity requires IAOs to build and maintain tight and close relationship among firm, industry and government. With regard to internal function, the professional identity as IAOs is associated with the expectations to manage and supervise the business activities of participating companies to prevent malfeasance and to provide assistance and protection to preclude individual companies from being disrupted by external intervention. These expectations define the behavior of IAOs, and lead them to enhance the participation of individual companies in industry planning and development process, with the purpose to foster a better internal environment and achieve sustainable development advantage. These can be further disassembled into a series of actions that take place in individual companies, including investment in R&D and sharing innovation information (Yu, Shen, & Wu, 2011), which demand IAOs to take the responsibility to promote resources flow among companies. With regard to external function, this professional identity requires IAOs to proactively acquire diverse resources from key players in the environment, such as governments, institutions and other industries. The resources obtained from external environment through IAOs will also be transferred to host companies and added to the exchange process among industry companies.

Therefore, when IAOs serve as IDs on boards, their role expectations require them to fulfill the duty to reduce destructive competition as well as enhance cooperation between host firm and other firms within the same industry. Moreover, they are also inclined to provide useful information and resources to the focal firm as an effort to improve the overall performance level of the industry. Besides, these directors also play a salient role in reducing transaction costs in international business (Guo, 2007). These actions of IAOs are likely to reduce short-term costs of focal firms and protect firms from lost in competition. Therefore,

Hypothesis 1a: The proportion of IDs on boards as IAOs is positively related to short-term firm performance.

However, in the long run, the intensified relationship and networks that closely connect individual firms may have negative effects on performance from several aspects. The first disadvantage is the decreased motivation of the host firm to be creative in strategic decision making and opportunity seeking beyond the boundary of current industry. Secondly, the embeddedness within the same industry would also limit the resource diversity for the focal firm, which may reduce the capability for the focal firm to create new strategic orientation independently (Kraatz & Zajac, 2001). Thirdly, too much interdependence within an industry may also influence the whole industry's ability to adapt to changing environments. In other words, when there are more IDs with professional identity as IAOs, their behavior in fulfilling their duty in terms of intensifying connections within an industry can improve a firm's capability in exploiting knowledge and technology in current domain, but it may constrain the firm's motivation and capability towards strategic change involving more cross-industry collaboration and exploration, which are crucial to long-term firm performance and sustainable development (e.g., Haynes & Hillman, 2010; Rajagopalan & Spreitzer, 1997). In line with the argument, we posit that,

Hypothesis 1b: The proportion of IDs on boards as IAOs is negatively related to long-term firm performance.

4.3.3.2 Professional identity as LGOs and firm performance

Local governments provide a protective environment for companies within their jurisdictions. In return, they need these companies to help accomplish political objectives such as high employment rate and social services (Walder, 1995). In addition, a series of fiscal reforms, including tax-sharing reform, leave a grey area between central government and local governments in terms of residual claims to firm earnings (Li, 1997). Central government transferred control rights to local governments, which collects taxes from local firms and return part to central government. As a consequence, local governments gain both control rights and residual returns, which greatly strengthen the interdependent relationship between them and firms in their jurisdictions (Chen & Luo, 2012). Furthermore, the system and rules also create a competing environment for local governments, which have gradually developed a series of favorable policies for local firms in order to gain competitive advantages against political competitors (Li, 1997).

Power redistribution between central government and local governments in the process of economic reform enables local governments to exert more influence on firms within their jurisdiction, which is reflected by the presence of LGOs on boards of these firms. The competing environment and consequent interdependent relationship between local governments and companies within the jurisdiction play a salient role in forming LGOs' professional identity and core professional values. As identity theory implies, the commitment of an individual to a particular identity depends on the number and density of its ties with other roles. Generally, a role with more or denser ties with other roles is likely to enforce the connections between the role identity and its influence on subsequent behavior (Stryker, 1980; Stryker & Burke, 2000). In the context of corporate boards, the professional identity as LGOs implies high status and plays an important role in connecting the local companies with stakeholders and various resources. Therefore, this identity could be activated and has high ranking in their identity hierarchy when serving on board and participating in board issues. The salience of the professional identity as LGOs can be reflected in their behavior patterns on corporate boards as they are likely to fulfill the relevant expectations associated with their profession.

IDs with professional identity as LGOs may affect short-term firm performance in at least two ways. First and foremost, in a perfectly competitive market, government is mainly regarded as a public service institution, which creates a favorable public policy environment for firms (Baysinger, 1984) and gets benefits back in the form of financial supports and employment (Hillman & Hitt, 1999). Despite the exchange system, government remains inactive in business activities. However, in a less competitive environment such as China, LGOs' professional identity bears the expectations to fulfill local economic objectives and service local social welfare (Sun, Tong, & Tong, 2002), which may sometimes compromise the short-term interests of individual local firms. Second, in transitional economies with insufficient formal institutions, LGOs may also bring in government bureaucracy to the host firm and give rise to political corruption, such as patronage and bribery (La Porta et al., 1999), which can increase operational costs and also distract managers from corporate issues and economic returns (Luo and Junkunc, 2008). Thus, we argue that,

Hypothesis 2a: The proportion of IDs on boards as LGOs is negatively related to short-term firm performance.

On the other hand, the LGO identity requires individual directors to urge their host companies to continuously contribute to local economy. The value and beliefs that LGOs receive as a result of the systematic training require these individuals to focus on supervision of various entities to ensure sustainable economic growth and social stability. The emphasis on stability and sustainability rather than short-term interests encourages IDs with LGO identity to objectively evaluate strategic decisions made by managers that may be detrimental to firm in the long run. Two major orientations are likely to be dominant in these directors' behavior. First, their identity as LGOs is associated with the expectation to enforce the implementation of local policies and stimulate local economy and employment. Second, this identity also equips these individuals with strong motivation to persuade local firms to conduct investment by expanding market and investing in new projects (e.g., Chen and Luo, 2012). These actions will consequently lead to firm growth in the long term. Thus, we predict that,

Hypothesis 2b: The proportion of IDs on boards as LGOs is positively related to long-term firm performance.

4.4 Method

4.4.1 Sample and data sources

Our initial sample consisted of Fortune 100 Chinese companies listed on Shanghai and Shenzhen stock exchanges over the period 2004-2007. A series of corporate governance guidelines had been implemented from 2002 to 2004 as efforts to address the importance of corporate governance in Chinese firms and develop effective corporate governance systems in China (Cheung et al., 2010). Therefore, the selection of the period enables us to examine the effects of corporate governance reforms on Chinese firms in a timely manner. In addition, we focus on Fortune 100 as companies with high revenues are influential in economic development and more likely to attract government officials to serve on board. The initial dataset was a panel of 400 firm-year observations. Data on director level was collected by the China Stock Market & Accounting Research (CSMAR) database. The database contains information on directors based on companies' annual reports and announcements. It includes information of IDs' demographic background, such as gender, education, and age, as well as affiliation and professional background and experience. In order to capture firm performance in the short and long term, we combined the CSMAR database and annual reports to obtain and calculate financial data. Due to missing data on directors' background and key financial indicators, our final sample of complete firm-level data consists of 223 firm-year observations on 74 firms. Of all the firms in the final sample, 21 are owned by local governments, 46 are owned by central government or institutions, while the remaining 7 are privately owned firms. In addition, 53.4 percent (N=119) of the observations are with at least one LGO on board, and IAOs are present in 40.4 percent (N=90) of all observations.

We conducted *T*-tests to detect whether there are significant differences between the initial sample and final sample. *T*-tests suggested that no significant differences in firm size (measured as log of employee number) or performance (measured as return on assets) could be detected between two samples, implying that systematic sampling bias is unlikely to influence our results (Lu et al., 2015; Peng et al., 2007; Westphal & Zajac, 1995).

4.4.2 Measures

Dependent and independent variables Firm performance was measured in both long-term and short-term orientation. We used accounting-based performance measures following established literature about Chinese firms, due to the fact that less developed capital markets may not be fully captured by market-based performance indicators (e.g., Peng *et al.*, 2007). Concerning *long-term performance*, it was obtained by sales growth, which is widely accepted as a key performance measure in Chinese firms and has been commonly used in previous studies in China (Cui et al., 2015; Fan, Wong, & Zhang, 2007; Peng et al., 2007).

Furthermore, sales growth has been widely shown to be an important indicator of long-term orientation and is one of managers' top concerns in emerging economies (Hitt, Tyler, Hardee, & Park, 1995; Yiu & Lau, 2008). For example, Fan et al. (2007) has shown that sales growth could effectively capture long-term performance in Chinese listed companies. In order to capture the long-term effects on sales growth, we also employed a three-year lag following their recommendation (Fan et al., 2007).

Short-term firm performance was measured in terms of return on assets (ROA), which is considered the mostly used measurement of short-term firm performance in management literature (Finkelstein & D'Aveni, 1994; He & Huang, 2011; Hillman, 2005).

Regarding *proportion of IDs as LGOs*, we measured it as the ratio of IDs who have the experience of serving as local government officials to total number of directors on board. For *proportion of IDs as IAOs*, it was measured as the number of IDs who have the background of working in the focal industry association (where the focal company operates in) divided by the total board size.

Control variables We also included control variables to constrain influence from factors other than independent variables in our study. We controlled for industry by including industry dummy for each firm following prior studies that were conducted in Chinese context (Wang, Feng, Liu, & Zhang, 2009). On firm level, we included the type of controlling shareholder and firm size. On board level, we controlled for board size, proportion of IDs, proportion of IDs as auditors or lawyers, proportion of female IDs, and attendance record of all IDs.

Literature suggests that the type of controlling shareholder can influence the role of board, since different controlling shareholders bear distinct goals, which could be reflected in the behavioral patterns of board of directors and managers and ultimately affect firm's strategic choices (Aguilera & Jackson, 2003; Desender et al., 2013; Peng et al., 2004; Tan, 2002). Firm size is measured by calculating the logged number of employees.

We also controlled for the influence from the board level. Board size (measured by the number of directors on board) and proportion of IDs (measured by the ratio of the number of IDs to board size) are commonly considered in board research for their potential influences on board and firm outcomes. Attendance record of IDs portrays how active and diligent IDs are involved in board meetings, which are found to be important predictors of the effectiveness of management-director interaction (Adams & Ferreira, 2008; Masulis, Wang, & Xie, 2012) and firm performance (Vafeas, 1999). Proportion of IDs as auditors or lawyers was measured as the number of auditors or lawyers in the group of IDs divided by the total number of directors on board, respectively. Consistent with the theoretical lens of our study, both professional identities are likely to shape a monitoring orientation of IDs, which can exert significant influences on firm performance (e.g., Chen and Nowland, 2010; Garg, 2013). We also controlled for the proportion of female IDs on board to detect their impacts on firm performance (Liu, Wei, & Xie, 2014).

4.5 Analysis and Results

Our cross-sectional time series data was unbalanced due to incomplete information that was available in CSMAR database and companies' annual reports. Therefore, we analyzed our data using the STATA package, since it can accommodate an unbalanced panel when computing the covariance matrix of disturbances (Cameron and Trivedi, 2010).

We chose generalized estimating equations (GEE) to test our model, because all firms in our sample have multiple observations over time. GEE is appropriate for longitudinal dataset and accommodates non-independent observations (Chatterjee & Hambrick, 2007). In the GEE model, we took Ballinger's (2004) suggestion and specified Gaussian link family and identity link function (J. Wade, Porac, Pollock, & Graffin, 2006). We also defined an autoregressive (one year) correlation structure to take into account that within-group observations taken close in time are more highly correlated, as suggested by prior strategy research (Crossland et al., 2014; Engelen et al., 2013). In order to capture the causality effects, we adapted one-year lag (for models with short-term performance measure – ROA – as the dependent variable) and three-year lag (for models with long-term performance measure – sales growth – as the dependent variable) between the independent and dependent variables as recommended by prior literature (J. Wade et al., 2006; Westphal & Zajac, 1995; Zhang, 2008).

Table 4.1 presents means, standard deviations and correlations for the all the measures in our analysis. In Table 2, Models 1-4 provide the result that tests hypothesis 1a, 1b, 2a, and 2b. Model 1 and Model 2 provides results of tests for hypothesis 1a, 2a. Model 1 is control model while Model 2 is a full model including controls as well as two independent variables. Hypothesis 1a, which theorizes that the proportion of IDs as IAOs is positively related to short-term firm performance, is tested by Model 2. As can be seen from Table 2, the coefficient on proportion of IDs as IAOs is positive and significant (b=0.145, p=0.074), which suggests that Hypothesis 1a is both statistically and economically significant (e.g., Dezso and Ross, 2012). The coefficient of 0.145 means that when the ratio of IAOs on board as IDs increases by 10

percent, the firm's ROA will increase by approximately 1.45 percent. The coefficient on the second independent variable, proportion of IDs as LGOs is negative and significant (b=-0.164, p=0.009), providing support to Hypothesis 2a, which predicts that the a higher proportion of LGOs on board as IDs can lead to decreasing firm performance in the short run. Specifically, the coefficient indicates that when the proportion is raised by 10 percent, firm's ROA is likely to decline for approximately 1.64 percent.

Hypothesis 1b and 2b are tested by Model 3 and Model 4 in Table 4.2, with Model 3 covering all controls, and Model 4 including independent variables on the basis of Model 3. Hypothesis 1b was not supported, as Model 4 doesn't reveal a significantly negative relationship between the proportion of IAOs and sales growth (b=0.598, p=0.313). Hypothesis 2b predicts that the relationship between the proportion of LGOs on board as IDs and long-term firm performance is positive. Model 4 presents the coefficients on LGOs' presence on board. The coefficient of 1.050 (p=0.018) shows that the presence of LGOs on corporate board has a significantly positive influence on firm's sales growth in the long term, strongly supporting Hypothesis 2b.

Robustness Check

We conducted additional analyses to test the sensitivity of our findings and robustness of our model. First, we followed Lu et al. (2015) and Bednar (2012) to use robust variance estimator to deal with potential heteroskedasticity issues, which makes our analysis a conservative test (Bednar, 2012; Henderson et al., 2006). In Table 4.3, Model 1 and Model 2 provide the results for Hypothesis 1a and 2a, and Model 3 and Model 4 are used to test Hypothesis 1b and 2b. As shown, the models still yield supports to Hypothesis 1a (b=0.145, p=0.016), 2a (b=-0.164, p=0.035), and 2b (b=1.050, p=0.033). Therefore, the results are qualitatively unchanged.

Table 4.1 Correlations and descriptive statistics

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12
1 ROA	0.05	0.05	1.00											
2 Sales growth	0.29	0.44	-0.07	1.00										
3 Proportion of IDs as LGOs	0.06	0.07	-0.24	0.12	1.00									
4 Proportion of IDs as IAOs	0.04	0.06	0.19	0.06	-0.06	1.00								
5 Firm size	4.13	0.53	-0.19	-0.13	0.09	-0.04	1.00							
6 Board size	11.45	3.02	-0.21	-0.07	-0.03	-0.13	0.26	1.00						
7 TMT size	7.35	3.16	-0.11	0.00	0.14	-0.03	0.31	0.42	1.00					
8 Meeting attendance of IDs	0.89	0.10	0.02	0.02	0.12	0.02	0.12	-0.08	0.02	1.00				
9 Proportion of IDs	0.35	0.06	-0.07	-0.03	0.05	0.01	0.11	-0.14	0.04	-0.03	1.00			
10 Proportion of female IDs	0.03	0.05	0.18	-0.07	0.01	-0.08	-0.13	-0.14	0.00	0.15	0.03	1.00		
11 Proportion of IDs as auditors	0.02	0.04	0.07	-0.04	0.17	-0.05	-0.05	-0.08	-0.14	0.13	-0.13	0.11	1.00	
12 Proportion of IDs as lawyers	0.03	0.05	0.12	0.06	0.22	-0.05	0.06	0.07	0.15	0.09	0.07	0.07	-0.01	1.00

Note: |correlations| ≥ 0.13 are significant at $p \leq 0.05$

Table 4.2 Base case analysis:
Proportion of IDs with professional identity as political officials and firm performance

Variables	ROA		Sales growth	
	Model 1	Model 2	Model 3	Model 4
Proportion of IDs as IAOs		0.145* (0.081)		0.598 (0.593)
Proportion of IDs as LGOs		-0.164*** (0.063)		1.050** (0.444)
Firm size	-0.015* (0.009)	-0.013 (0.009)	-0.158** (0.065)	-0.174*** (0.063)
Board size	-0.001 (0.002)	-0.002 (0.002)	-0.011 (0.012)	-0.008 (0.011)
TMT size	-0.000 (0.002)	0.000 (0.002)	0.005 (0.011)	-0.000 (0.011)
Attendance record of IDs	-0.015 (0.037)	-0.016 (0.036)	0.121 (0.307)	0.032 (0.300)
Proportion of IDs	-0.109 (0.072)	-0.095 (0.071)	-0.532 (0.642)	-0.597 (0.629)
Proportion of female IDs	0.124** (0.084)	0.142* (0.081)	-0.988 (0.631)	-0.990 (0.607)
Proportion of IDs as auditors	0.034 (0.124)	0.105 (0.121)	-0.719 (0.865)	-1.142 (0.849)
Proportion of IDs as lawyers	0.098 (0.090)	0.144* (0.087)	1.230* (0.642)	1.078* (0.622)
Controlling shareholder dummies	Included	Included	Included	Included
Industry	Included	Included	Included	Included
Constant	0.152*** (0.055)	0.142*** (0.053)	1.219*** (0.424)	1.306*** (0.414)
Wald chi-square	20.09**	33.79***	18.85*	27.55**

*p<0.10, **p<0.05, ***p<0.01; Industry dummy and ownership dummies are included in all models.

[a] IDs stands for independent directors.

Table 4.3 Robustness check (1):
Proportion of IDs with professional identity as political officials and firm performance

Variables	ROA		Sales growth	
	Model 1	Model 2	Model 3	Model 4
Proportion of IDs as IAOs		0.145** (0.069)		0.598 (0.579)
Proportion of IDs as LGOs		-0.164** (0.068)		1.050** (0.491)
Firm size	-0.016* (0.009)	-0.013 (0.009)	-0.158** (0.077)	-0.174** (0.070)
Board size	-0.001 (0.001)	-0.002 (0.001)	-0.011 (0.009)	-0.008 (0.009)
TMT size	-0.000 (0.001)	0.000 (0.001)	0.005 (0.007)	-0.000 (0.006)
Attendance record of IDs	-0.015 (0.049)	-0.016 (0.046)	0.121 (0.174)	0.032 (0.177)
Proportion of IDs	-0.109 (0.068)	-0.095 (0.062)	-0.532* (0.300)	-0.597* (0.332)
Proportion of female IDs	0.124** (0.053)	0.142** (0.059)	-0.988** (0.444)	-0.990** (0.414)
Proportion of IDs as auditors	0.034 (0.111)	0.105 (0.106)	-0.719 (0.528)	-1.142** (0.548)
Proportion of IDs as lawyers	0.098 (0.090)	0.144* (0.081)	1.230** (0.501)	1.078** (0.488)
Controlling shareholder dummies	Included	Included	Included	Included
Industry	Included	Included	Included	Included
Constant	0.152*** (0.045)	0.142*** (0.043)	1.219*** (0.456)	1.306*** (0.405)
Wald chi-square	38.63***	47.65***	21.98**	27.38**

*p<0.10, **p<0.05, ***p<0.01; Industry dummy and ownership dummies are included in all models.

[a] IDs stands for independent directors.

Table 4.4 Robustness check (2):
Presence of IDs with professional identity as political officials and firm performance

Variables	ROA		Sales growth	
	Model 1	Model 2	Model 3	Model 4
Presence of IDs as IAOs		0.024*** (0.009)		0.060 (0.068)
Presence of IDs as LGOs		-0.018* (0.010)		0.107* (0.055)
Firm size	-0.016* (0.009)	-0.011 (0.009)	-0.158** (0.077)	-0.177** (0.075)
Board size	-0.001 (0.001)	-0.002 (0.001)	-0.011 (0.009)	-0.011 (0.009)
TMT size	-0.000 (0.001)	0.000 (0.001)	0.005 (0.007)	0.000 (0.006)
Attendance record of IDs	-0.015 (0.049)	-0.009 (0.047)	0.121 (0.174)	0.015 (0.183)
Proportion of IDs	-0.109 (0.068)	-0.097 (0.069)	-0.532* (0.300)	-0.466 (0.327)
Proportion of female IDs	0.124** (0.053)	0.128** (0.058)	-0.988** (0.444)	-0.975** (0.418)
Proportion of IDs as auditors	0.034 (0.111)	0.073 (0.098)	-0.719 (0.528)	-0.904* (0.495)
Proportion of IDs as lawyers	0.098 (0.090)	0.143* (0.086)	1.230** (0.501)	1.095** (0.522)
Controlling shareholder dummies	Included	Included	Included	Included
Industry	Included	Included	Included	Included
Constant	0.152*** (0.045)	0.132*** (0.043)	1.219*** (0.456)	1.322*** (0.431)
Wald chi-square	20.09**	49.67***	18.85*	26.86**

*p<0.10, **p<0.05, ***p<0.01; Industry dummy and ownership dummies are included in all models.

[a] IDs stands for independent directors.

Furthermore, we used alternative measures to capture our explanatory variables. We measured both LGO and IAO presence in the group of IDs by employing a dummy variable. Accordingly, LGO (IAO) presence is coded as 1 if there is at least one ID with local government official (industry association official) background. The new variables were then included in the analysis to replace the original independent variables. Specifically, Model 1 and Model 3 include control variables, while Model 2 and Model 4 further incorporate alternative independent variables for testing the hypotheses. The results are shown in Table 4.4. Presence of IDs as IAOs is positively related to short-term performance (B=0.024, p=0.006), providing strong support for Hypothesis 1a. On the other hand, when there is at least one LGO on corporate board, short-term performance is likely to decrease for 0.018 (b=-0.018, p=0.062), but long-term performance is likely to increase for 0.107 (b=0.107, p=0.051). Therefore, Hypothesis 2a and 2b are also supported. In summary, the results are again qualitatively consistent with our findings in the default analysis.

4.6 Conclusions and Discussions

Our study was urged by the controversy and discussion over the effectiveness of board independence and its impact on board and firm performance. Traditional agency theory holds that an independent board is more effective in executing monitoring function and thus should be beneficial to a firm. However, the mixed empirical results in the last several decades suggest that the issue of board independence demands a deeper examination that takes into consideration other underlying factors. For instance, Hambrick et al. (2008) suggests that the lack of research on directors' motivation could be an obstacle that prevents researchers from fully understanding board processes and effectiveness (Hambrick et al., 2008).

Our study addresses the scarcity of research on IDs' identity and examines the underlying mechanisms that might shape their behavior (Hillman, Nicholson, & Shropshire, 2008). Specifically, we build a theoretical framework and develop a list of hypotheses to explore how politically connected IDs' board behavior could be influenced by their professional identity and what the consequences are for firm performance. Our model extends the small amount of research in this area from at least three aspects. Firstly, our focus on IDs' professional identities enables us to link identity research to board independence literature. Our theoretical perspective provides explanations on why board independence may not have a direct impact on firm performance. The meanings that are attached to different professional identities can lead to a variety of behavioral patterns on individuals, who may bear different expectations to fulfill respective identities. Therefore, merely looking at the presence of IDs is not sufficient to capture the impact of IDs on firm outcomes. Secondly, we take a contextualization approach in investigating IDs' professional identity. Our selection of government and institutional officials presents a unique but highly influential group of IDs in Chinese listed companies, since political connections are considered essential in business activities in China. Thirdly, we further distinguish among different types of politically connected IDs and provide in-depth investigation on the divergent expectations of professional identity as LGOs and IAOs, respectively.

Overall, the results supported most of our predictions, indicating that different types of politically connected IDs may have distinct effects on firm performance. Even the implications of the same set of IDs can vary for firm performance when long/short-term orientation is taken into consideration. For example, we found that although it's unlikely that the presence of LGOs as IDs on Chinese corporate board can bring immediate financial benefits to the host firm, they are likely to make contributions by increasing long-term sales growth. The findings are consistent with our theoretical argument, which suggests that the professional identity and associated expectations as LGOs require them to adopt a long-term orientation and focus on the sustainability of the firm.

On the other hand, we predicted that when IAOs serve as IDs, they will display another set of particular behaviors on board, which will subsequently impose different impacts on firm performance. Specifically, we theoretically hypothesized that their presence is likely to positively contribute to short-term firm performance due to the enhanced collaboration, reduced transaction costs and increased within-industry resources. Empirical results provided support for the hypothesized relationship. However, the dataset didn't provide support for the hypothesized negative relationship between IAO presence as IDs and long-term performance. Perhaps this is not surprising. Although we employed a three-year lag to capture the long-term impacts on sales growth, it could still be a relatively short time for the side effects of too much embeddedness of industry networks to appear, especially given that most of the companies in Chinese Fortune 100 belong to manufacturing industry and are currently relying heavily on government protection and industry clusters to expand market.

4.6.1 Theoretical implications

Our study makes theoretical contributions from at least three aspects. Firstly, our study contributes to boards of directors literature by achieving a better understanding of the connection between IDs and firm outcomes. Agency scholars emphasize the contribution of IDs through active monitoring behavior and threat them as homogenous monitors. Resource dependence scholars, on the other hand, assume that IDs are active resources providers and can benefit host firms through their contribution of diverse resources. Our theoretical model complements the two perspectives and investigates why individual IDs should be considered heterogeneous and why this can lead to different outcomes. Our theoretical framework associates the professional identity of IDs with their respective behavioral patterns and proposes a new perspective which may provide inspirations for future research in exploring the social psychological mechanisms that could impact IDs' function and effectiveness on corporate boards. By doing this, our examination of IDs' function fills a gap in current literature, which hasn't paid enough attention to the fact that IDs normally have their own professions and external affiliations, which can attach predefined meanings and behavioral rules to individuals. Our model complements agency theory by explaining why board independence does not necessarily lead to improved board effectiveness and better firm performance. It also adds knowledge to resource dependence theory by showing that presence of various IDs *per se* doesn't lead to better firm performance. Instead, resource provision function of IDs is only activated when it is embedded in their professional identity. To the best of our knowledge, this study is also among the first to theorize and empirically test how external stakeholders (e.g., government and institutions) may influence IDs' behavioral patterns on corporate boards.

Secondly, our study also contributes to business-government relationship literature by enriching the understanding of the role that politically connected IDs can play in forming and developing political connections. Some studies conducted in US companies have found that boards of directors can link government and business. For instance, Hillman (2005) found that former politicians are more likely to be appointed on boards in heavily regulated industries. She further showed that the presence of politicians on boards is likely to have a positive impact on market-based firm performance. In another study, Lester et al. (2008) examined antecedents that make politicians more or less attractive to firms as candidates for outside directors. Both studies used resource dependence perspective to explain how human and social resources possessed by politicians can affect their value as outside directors. On the other hand, although informal institutions and political relationship are considered as critical resources in China, most focus has been on the development political connections through top managers in Chinese listed firms. Although plenty of research reveals that politically connected directors have taken positions on Chinese board (e.g., Chizema *et al.*, 2015; Firth, Fung, and Rui, 2007), relatively little attention has been paid to their roles in influencing business activities. Our study contributes to business-government relationship research not only by taking contextualization into consideration and examining different types of officials that play significant roles in Chinese society, but also by moving beyond the focus on resource provision function of IDs to the discussion on how their behavior is dependent on their political professions. In other words, prior literature mainly explores what firms can obtain from politically connected IDs. This study takes this stream forward by considering the issue from the standpoint of politically connected IDs. By doing this, our study seeks to uncover the underlying mechanisms through which politically connected IDs could influence their host firms. Our theoretical framework shows that political connections through government officials may not always be beneficial to a firm, because professional identities of these IDs can influence whether and how they will distribute the resources to achieve desired outcomes that are consistent with expectations that are associated with respective professions. This also partly explains why prior literature on the political connections of Chinese SOEs has found conflicting results, with some showing positive impact of political connections (e.g., Francis, Hasan, & Sun, 2009) while other showing negative effects (e.g., Fan et al., 2007). By a thorough examination, we seek to enhance our understanding of the implications of political connections for both individual companies and government. For example, IAOs represent a type of politically connected IDs that has been underresearched in prior research, despite the fact that industry associations are important regulating agencies that intermediate among different interests groups (member firms) to obtain and maintain competitive advantages and facilitate the institutionalization of collective actions (e.g., Porter, 2008).

Thirdly, our theoretical model also adds knowledge to identity theory by applying it to a novel context—corporate governance research in an emerging economy. Corporate boards provide us with an opportunity to examine a key issue in identity theory—how individuals' behavior consistently reflects their identity. Sitting on corporate boards as IDs portrays an ideal circumstance to test individuals' behavior outside the original work setting that has shaped individuals' salient identity. We use identity theory as our theoretical lens to examine IDs' behavior patterns and their antecedents, and we also show IDs' tendency to fulfill their role expectations will lead them to follow specific profession-corresponding behavior patterns, which, through their influences on board process, will ultimately influence firm performance.

4.6.2 Managerial implications

Our research also has important implications for managerial practices in Chinese listed companies. First of all, it provides guidance for the companies that are seeking to build and maintain political connections through appointing IDs with political backgrounds. While it is considered that firms can obtain diverse resources through political connections of directors, the drawbacks that can come along are underresearched (e.g., Okhmatovskiy, 2010). Our suggestion is that Chinese firms should be vigilant when choosing IDs. The two types of politically connected IDs examined in our study are both traditionally considered beneficial to the host firm, as it's assumed that these IDs possess valuable political resources that can be utilized by the firm to improve firm performance and maintain sustainable development (Hillman, 2005). However, as our empirical results show, the appointment of IDs with political connections is not necessarily advantageous to the company. The expectations that are associated with IDs' professional identity will lead them to behave accordingly and the consequences are likely to be reflected in firm outcomes through their participation in board decision-making and monitoring process. The presence of LGOs, for instance, could improve sales performance in the long run. But the positive impact takes time to appear. In the short term, the costs that come along with the presence of LGOs as IDs are likely to exceed the economic benefits. Therefore, it's critical for a company to associate the arrangements of corporate governance (e.g., board structure and board composition) with the strategic plan and financial expectations at the firm level in order to produce desired outcomes.

4.6.3 Limitations and future Research

Despite the findings and contributions, this study inevitably has some limitations. The first would be the limitations inherent in the sample. We conducted analysis using Fortune 100 Chinese listed companies, most of which (approximately 90 percent) are controlled by the government. Therefore, doubts might raise regarding the effectiveness and influence of board of directors on firm operationalization and performance outcomes in the context. We argue that the Chinese government has increasingly recognized the importance of modernizing corporate governance mechanisms in listed companies, especially since 2001, when China joined World Trade Organization (WTO) and became unprecedentedly active in the world economic community (Chow, 2003). Chinese government's "Going-out" strategy has encouraged a growing number of Chinese firms (especially SOEs) to invest in international business activities (Child & Marinova, 2014). The intensified involvement in global business and increased demand for high reputation and good relationship with global stakeholders (e.g., foreign regulatory authorities) require Chinese firms to develop effective corporate governance mechanisms (e.g., improve the functions of boards) to meet the raised expectations (Luo & Tung, 2007; Sanders & Carpenter, 1998). Nevertheless, future research might look into other types of Chinese firms (such as family firms).

Second, our measures of firm performance were operationalized through accounting-based indicators, such as ROA and sales growth. Although both have been repeatedly shown to be effective indicators of firm performance in Chinese context and widely employed in previous work about Chinese studies (Cui et al., 2015; Fan et al., 2007; Tan & Peng, 2003), we suggest that future research could examine how professional identity of IDs affects market-based performance, such as Tobin's Q. Since market-based performance is sensitive to investors' confidence and expectations for the future, it would be interesting to compare how the reaction of customers (sales growth) might differ from that of investors (Tobin's Q).

Third, in this study we only focused on two types of politically connected IDs: LGOs, and IAOs. The reason, as shown earlier, is that we are interested in the growing importance of lower levels of government entities in business activities since China's economic transformation (Chen, Li, Su, & Sun, 2011). Future research could extend the current study by analyzing the presence of other types of politically connected IDs and its implications for firm performance and strategy. For example, the role of IDs with professional identity as central government officials could be a potentially valuable avenue for further investigation. It would also be interesting to analyze how the relative power of different types of politically connected IDs could strengthen or weaken the influences of others in the boardroom.

Finally, although we theorize that professional identity can influence politically connected IDs' board behavioral patterns, we lack direct evidence to describe their board behavior. Further research, especially qualitative research would be very helpful to enrich our understanding of the mechanisms through which IDs' behavior is guided by their professional identity.

CHAPTER 5 Conclusions and Implications

5.1 Conclusions and Contributions of the Three Studies

In this thesis, we've focused on the relationship between board-CEO dynamics, CEO succession, and leadership structure and firm-level outcomes. By developing three studies, the thesis seeks to contribute to one of the central questions in strategic management literature: how do boards of directors and CEOs matter in strategic decision making and firm performance? The three studies contribute to the central topic from different perspectives, linking the content of different boxes that we've illustrated in Table 1.1 (see Chapter 1). In this section, we will discuss the main findings, conclusions, and major contributions of these three studies, which are also shown in Table 5.1.

In *Study 1*, we draw on social psychology theories to investigate a critical issue in corporate governance literature and strategic management research: gender diversity in the leadership. Specifically, we look at how the board gender diversity influences firm's capabilities of strategic change and how the relationship is moderated by the gender of board chair. Relying on *Status Characteristics Theory* and *Role Congruity Theory*, we predict that female directors in a boardroom may face a dilemma between behaving coherently according to the perceptions that people hold towards gender status and gender beliefs and violating the gender stereotypes by showing agentic characteristics, which are considered desirable in the leadership but traditionally perceived to be possessed by males rather than females. Therefore, counterintuitively, the consequence on board decision-making process is that the board is less likely to approve the strategic decisions that deviate from existing strategies when it has higher gender diversity. However, the effect could decrease when there is a female chair on corporate board. The presence of a female chair could provide legitimacy to female directors on board, and her success in taking the leadership position on board also attenuates the status hierarchy in the boardroom.

Table 5.1 Conclusions and contributions of the three studies

Study	Research Question(s)	Conclusions	Contributions
Study 1	The research investigates the impact of board gender diversity on firm strategic change and how gender of board chair can moderate the relationship.	➢ A gender diverse board may have difficulties in internalizing gender-related resources and utilizing them for firm's strategic change; ➢ The presence of a female board chair not only adds confidence to female directors and encourages them to be more involved in board issues, but also brings legitimacy to their leadership positions by changing the gender status beliefs shared by male board members.	➢ **Theoretical contributions.** Our use of *Role Congruity Theory and Status Characteristics Theory* especially complements *Resource Dependence Theory* (RDT) by providing new lens to examine the effects of board gender dynamics and implications for firm's strategic change. The study also adds knowledge to the growing board chair literature. Instead of focusing on the duality role of board chair as in prior literature, we show that gender of board chair also plays a salient role in affecting board dynamics and its impact on strategic change. ➢ **Managerial contributions.** To augment the positive contribution of women directors, asymmetric stereotypes need to be altered. It demands the legitimacy of women directors' status from both policy makers (e.g., gender quotas) and organizations (e.g., promoting more women to board chair position).
Study 2	The study focuses on the symbolic function of founder CEO succession when the founder retains on board as chair.	➢ Firms may utilize founder CEO succession event as symbolic actions to gain legitimacy and resources from environments without substantial strategic change in the post-succession period; ➢ The restraints the founder exerts on new CEO could be reduced when the relative power between the founder and successor decreases, which could be reflected in pre-succession and post-succession contexts.	➢ **Theoretical contributions.** Our work contributes to *Symbolic Management Perspective* and CEO succession literature by showing that that symbolic management through CEO succession can be utilized to obtain legitimacy and external resources without substantive changes within the organization. The findings reveal that the effects of governance and leadership arrangements are largely contingent on the economic, social and organizational contexts they are situated in. ➢ **Managerial contributions.** The study contributes to managerial practices by showing that leadership structure and succession could serve a symbolic function to satisfy stakeholders. Although it's expected that the retained founder would only serve a supervisory role and the separation of CEO/board chair position would improve the effectiveness of corporate governance, it could prevent the firm from strategic change, especially if the founder is more influential and the successor doesn't perform well.
Study 3	This study examines the link between professional identities of politically connected independent directors, their behavior patterns and implications for firm performance.	➢ An identity perspective provides a potentially valuable lens to examine the underlying mechanisms that shape IDs' behavioral patterns and influence their functions on corporate boards; ➢ Political connections through board of directors may not always be beneficial to a company. It's critical for a company to associate the arrangements of corporate governance (e.g., board structure and board composition) with the strategic plan and financial expectations at the firm level in order to produce desired outcomes.	➢ **Theoretical contributions.** This study is among the first to theorize and empirically test how external stakeholders (e.g., government and institutions) may influence IDs' behavioral patterns on corporate boards. Furthermore, it adds knowledge to business-government relationship literature by enriching the investigation of the role of politically connected independent directors. Thirdly, the adaption of *Professional Identity-Based View* of board of directors provides new lens to examine the underlying mechanisms that can play a salient role in shaping independent directors' behavioral pattern. ➢ **Managerial contributions.** The study suggests that boards not only should look at the potential resources that independent directors may bring in, but also should take into consideration the specific characteristics of political independent directors' profession and external affiliation and consider thoroughly whether the benefits of having these IDs can outweigh the unintended drawbacks.

The results based on analysis of USA Fortune 500 companies during the period between 2003 to 2009 supported our predictions and showed that board gender diversity can exert negative influence on firm's strategic change. However, when the board chair is a female rather than a male, the negative relationship between board gender diversity and strategic change is likely to be attenuated. Our study has important theoretical implications for board gender diversity research. Our use of social psychological theories (*Role Congruity Theory and Status Characteristics Theory*) especially complements *Resource Dependence Theory* (RDT) by building on but going beyond the resource provision function of female directors, with a particular focus on the gender dynamics and behavioral process within gender diverse boards. The study also adds knowledge to the growing board chair literature. Whereas prior research on board chair has focused largely on the issue of CEO duality (Krause et al., 2014), this study shows that the characteristics of the board chair should be taken into consideration when predicting his/her behavior patterns in board issues. Besides the gender aspect that has been examined in the current study, we also suggest that future research could contribute to board chair research by exploring how other characteristics, backgrounds, and social networks possessed by the chair could exert an impact on his/her board behavioral process and decision making. We also seek to call attention from practitioners on how to enhance the involvement of female directors in strategic decision makings and benefit from the resources they could bring in. Our findings show that building legitimacy of female directors' presence on boards is critical and should be achieved by the joint efforts of policy makers and organizations.

Study 2 adopts the *Symbolic Management Perspective* to investigate the impact of founder CEO succession on firm's strategic change in the post-succession period. Firms may use symbolic actions in the leadership structure to manage external perceptions from stakeholders. The findings based on data from all founder CEO succession events in Chinese firms on Shenzhen Stock Exchange between 1994 and 2010 showed that succession events could serve symbolic functions to convey desired information. Whether the founder stays on corporate board as chair after the succession event is likely to influence the organization's strategic outcomes, such as resource allocation patterns. The retention of founder as board chair poses restraints on successors, and he/she also demands loyalty from board members, who are also likely to hold more faith towards the founder rather than the successor.

The theoretical model and analysis further pointed out that the relationship is contingent on contextual factors, such as post-succession firm performance and founder's tenure as CEO. These two contingencies were identified as they can exert influences on the discretion of successor and the relative power between the founder and successor. The results showed that a better post-succession firm performance and a shorter founder's tenure as CEO can increase the status of successor in the leadership and can also enhance the confidence from both founders and other board/top management team members. Under this circumstance, the symbolic function of founder CEO succession will also be weakened. This study has important implications for symbolic management literature, as it enriches current research by complementing its focus on the symbolic roles of governance policies, such as long-term incentive plans and board independence (Westphal & Zajac, 2013). Our investigation of founder CEO succession as a symbolic action in an emerging economy also provides inspirations for future research to look into the institutional and organizational contexts these activities are situated in. We further offer suggestions regarding managerial practices by showing leadership structure and succession events could serve a symbolic function to satisfy stakeholders without the organization undergoing substantial changes. In particular, given the special status of a founder, his or her retention may largely restrict the successor's latitude in decision making. The impact of founder's retention is likely to intensify if he or she has served as the CEO for a long period or the successor doesn't show promising capability in improving firm performance in the post-succession period.

Study 3 investigates the role and influence of politically connected independent directors (IDs) in companies. We build a theoretical model to explore how politically connected IDs' board behavior could be influenced by their professional identity and what the consequences are for firm performance. Chinese Fortune 100 listed companies were selected for this study, as the political and economic transformations in China provide a unique context to examine the research questions in publicly traded companies and have interesting implications for economies with relatively weak institutional environments. By focusing on IDs with professional identity as *local government officials* (LGOs) and *industry association officials* (IAOs), we developed and tested a series of hypotheses to study both positive and negative influences that may come along with government-related professional identity when these IDs serve on corporate boards.

The findings confirmed most of our predictions, yielding supports to the propositions that professional identities can be reflected in individual IDs' behavioral patterns when executing board functions. Specifically, results showed that while having LGOs on boards might not bring in financial advantages to a listed firm in the short run, it's likely that the their presence as IDs can help the company gain higher growth rate in the long term. On the other hand, appointing IDs with IAO background tells a different story, which is, however, also consistent with the professional identity embedded in these directors. Analyses confirmed part of our predictions by showing a positive and significant relationship between the proportion of IDs with IAO backgrounds and short-term firm performance. However, we didn't find support regarding the long-term negative impacts of having IAOs on corporate boards as IDs. One of the explanations could be embedded in the sample and lagged period we used in the study. Although we employed a three-year lag in order to capture the causality relationship in a long term as suggested by prior research, it might take much longer for the side effects of too much embeddedness in the same industry to appear in Chinese contexts, since a high proportion of Chinese Fortune 100 listed companies are manufacturing companies and are currently relying heavily on industry clusters to expand market.

The findings in *Study 3* contribute to literature by providing a new theoretical lens to reexamine the relationship between IDs and firm performance and enriching our understanding of the effectiveness of board independence. Although traditional agency perspective suggests that increased board independence could benefit firm performance (Jensen and Meckling, 1976), the conflicting empirical findings indicate that the issues related to the effectiveness of board independence still remains (e.g., Dalton, Daily, Ellstrand, & Johnson, 1998; Eisenhardt, 1989; Kor, 2006; Westphal & Zajac, 1998). Building on *Identity Theory*, the study offers an alternative perspective – *Professional Identity-Based View* – on the role and influences of IDs in organizations. We suggest that the examinations of IDs' influence should take into consideration the specific contexts where these individuals' roles, expectations, and behavioral patterns have been shaped. In addition, by focusing on politically connected independent directors in an emerging economy, we also contribute to business-government relationship literature by investigating a less visible way through which governments could influence organizations in a weak institutional environment.

5.2 Implications for Strategic Management Literature

The discussions of boards' involvement in strategy could be tracked back into the 1970s, when strategic management became an established research discipline (Pugliese et al., 2009; Volberda and Elfring, 2001). This thesis seeks to contribute to the conversation by exploring the strategic role of board of directors from two main directions. The first direction, which examines the impact of boards of directors and leadership structure on strategic change, is investigated in *Study 1* and *Study 2*. The second direction, which examines how external constituencies, i.e., governments and institutions, can influence firm financial performance through the medium of directors' strategic involvement, is investigated in *Study 3*. Table 5.2 provides an overview of the implications for strategic management literature.

Implications for Strategic Change Literature

A constantly growing number of studies has found that characteristics of firm leaders and leadership structure could exert great influences on the level of strategic change that takes place in firms (e.g., Goodstein, Gautam, & Boeker, 1994; Karaevli & Zajac, 2013; Westphal & Fredrickson, 2001). We seek to add new insights to *strategic change literature* from two distinct but related aspects: 1. How board composition, especially board gender diversity, could influence strategic change; 2. How could the changes in leadership structure be utilized to manage the external cognition of strategic change without substantial renewal of strategic patterns. We use *Study 1* and *Study 2* to address the two research questions, respectively (see Table 5.2).

Study 1 addresses the strategic role of corporate boards from a gender perspective. Previous research has shown that a heterogeneous board with a wide range of perspectives and knowledge can have access to a great variety of external resources and create more strategic options that are potential sources for strategic change (Haynes & Hillman, 2010). Building on *Status Characteristics Theory* and *Role Congruity Theory*, we postulate that a heterogeneous board with greater gender diversity may not lead to increased strategic change. On the contrary, when there are more women on corporate board (as gender minority group members), the likelihood of strategic change is reduced. Although boards with a higher proportion of women directors present a richer pool of diverse ideas and perspectives, these resources might not be incorporated in decision-making process and contribute to the availability of strategic options, which could be hindered by gender stereotypes and role and

Table 5.2 Key Implications for strategic management literature

Study	Implications for Strategic Management Literature
Study 1	➢ Although boards with a higher proportion of women directors present a richer pool of diverse ideas and perspectives, these resources might not be incorporated in decision-making process and contribute to the availability of strategic options, which could be hindered by gender stereotypes and perceived role and status incongruity in boardrooms. ➢ It provides new insights for strategic change literature by shifting the focus from the presence to the actual use of diverse resources.
Study 2	➢ We echo Fiss and Zajac (2006)'s call for more research to explore different forms of symbolic actions concerning strategic change by examining the consequences of founder CEO's retention as board chair on strategic change in the post-succession period. The setting helps achieve a better understanding of how symbolic management of strategic change can be realized through changes in leadership structure. ➢ Equally important, this study also provides evidence to show that the decoupling of founder CEO succession from actual strategic change is likely to diminish or disappear when the new CEO is powerful and has gained more credibility.
Study 3	➢ While previous research examining directors' strategic involvement has been mainly focusing on strategic choice and agency perspective (Ravasi & Zattoni, 2006), this study applies a professional-identity perspective in strategic management research to examine the external factors that drive IDs' strategic preferences on corporate boards. ➢ The empirical results have shown that the preferences and focuses on different strategies could eventually be reflected in long-term or short-term performance, regardless of the type of controlling shareholder. This offers new insights for the investigation of IDs' strategic roles as representatives of diverse stakeholders and shareholders in emerging economies.

status incongruity in boardrooms. This provides new insights for strategic change literature by shifting the focus from the *presence* to the *actual use* of diverse resources. In doing this, the study also calls for more research to examine the conditions that can influence the *use* of board resources in strategic change literature.

Study 2 examines how the perceptions of strategic change could be managed from inside the firm through changes in leadership structure. Strategy scholars have long noticed that besides operational level, strategic change can also occur on cognitive level. However, most research that explores the cognitive aspect of strategic change has exclusively focused on the cognitive change inside the organization, while little attention has been paid to the management of external stakeholders' cognition by the organization (Fiss & Zajac, 2006). The perceptions of external stakeholders regarding the strategic changes that take place within a focal firm are important for its sustainable development, since they can influence the confidence and expectations of the stakeholders, which constitute the legitimacy of a firm and have profound influences on the amount and quality of available resources (Dimaggio and Powell, 1983). We echo Fiss and Zajac (2006)'s call for more research to explore different forms of symbolic actions concerning strategic change by examining the consequences of founder CEO's retention as board chair on strategic change in the post-succession period. The setting helps achieve a better understanding of how symbolic management of strategic change can be realized through changes in leadership structure. Equally important, this study also provides evidence to show that the decoupling of founder CEO succession from actual strategic change is likely to diminish or disappear when the new CEO is powerful and has gained more credibility.

Implications for External constituency-Strategy Relationship Research

Prior literature has shown that external constituencies could influence firm strategy and performance through a variety of channels by means of corporate governance. Some research has shown that external constituencies can intervene into the strategic decision-making process directly through ownership. For example, Hoskisson et al. (2002) found that different voices exist in shareholders and their respective preferences and interests can influence the firm's innovation strategies (internal innovation intensity vs. external innovation intensity). In addition, a considerate amount of studies have also shown that interlocking directorship might also produce important spillover effects on firm strategy

(Fahlenbrach, Low, & Stulz, 2010; Kor, 2006). On the other hand, it has received relatively little attention from corporate governance scholars on the *indirect* and less obvious impacts that external constituencies can exert on firms, with only a few exceptions (e.g., Hillman et al., 2008).

Study 3 seeks to fill this gap by exploring the indirect influences that firms could receive, often unnoticed, from external constituencies. Specifically, we focus on institutional stakeholders in an emerging economy and examine how the divergent preferences of different governments and institutions could still be involved in the decision-making process, regardless of their ownership in the focal firm. By developing a *professional-identity based view* of IDs, we argue that the professional role identity of IDs as government officials plays a salient role in their decision-making process on corporate boards. The influence of their professional roles will be reflected in long-term or short-term firm financial performance through their behavioral patterns and preferences in strategic decision-making process and other board issues, which are embedded in their professional roles.

Our theoretical framework and empirical findings contribute to the research on the relationship between external constituencies and firm strategy from at least two aspects. First, the study applies a *professional-identity perspective* in strategic management research to examine the external factors that drive IDs' strategic preferences on corporate boards. Previous research examining directors' strategic involvement has been mainly focusing on strategic choice and agency perspective (Ravasi & Zattoni, 2006). Our theoretical framework introduces an alternative lens on the drivers of directors' strategic behavior. In addition to the strategic benefits that are embedded in IDs' duty description (capacity of participating and monitoring strategic decision making), the predefined professional identity of IDs in institutions and governments could also play a significant part in the situation, which would largely determine to which extent and in which direction the strategic capacity would be utilized. Secondly, the empirical results have shown that the preferences and focuses on different strategies could eventually be reflected in long-term or short-term performance, regardless of the type of controlling shareholder. Scholars have been interested in the prevalence of concentrated ownership in emerging economies and the consequences on firm strategy, such as reduced strategy efficiency (Filatotchev et al., 2001) and less investment on innovation (Morck, 2005). Through its effects on firm strategy, concentrated ownership structure is likely to cost firm performance and competiveness (Young et al., 2008). *Study 3*, however, shows that concentrated ownership itself might not necessarily lead to worse firm performance through certain patterned strategy. Rather, IDs with diverse professional identities could bring in expectations and image of other stakeholders and incorporate these factors into strategic decision-making process. Therefore, this also offers new insights for the investigation of IDs' strategic roles as representatives of diverse stakeholders and shareholders in emerging economies.

5.3 Implications for Corporate Governance Literature

One of the main purposes of this thesis is to examine the behavioral factors that could influence board effectiveness, especially the role of board of directors in strategic decision making and firm financial outcomes. With this fundamental goal in mind, the three studies complement each other and contribute to current governance literature from three directions (See Table 5.2).

Study 1 contributes to corporate governance literature by examining strategic consequence of gender dynamics in the boardroom and adding new knowledge to the growing board chair research. Women representation on board has triggered a widespread discussion from academia and practice, as this demographic characteristic reflects the increasing number of women entering into high-level positions in companies (Conyon & Mallin, 1997). As most discussions have been focusing how women directors could affect board's monitoring orientation (Adams & Ferreira, 2009) and firm financial outcomes (Erhardt et al., 2003), it remains underexplored on how the gender dynamics on corporate boards can influence the strategic outcomes. Instead of merely emphasizing the benefits of gender-related resource variety (Withers, Hillman, & Cannella, 2012), we suggest that a higher level of gender diversity on corporate boards might actually weaken firms' ability for strategic change. Building on *Role Congruity Theory* and *Status Characteristics Theory*, this study proposes that the male-female status asymmetry can constrain the influence of women directors who seek to challenge ingrained belief structures and violate the expectations associated with gender-based roles. However, the side effect of gender diversity is not inevitable – status beliefs can be changed and traditional role stereotypes can be altered when the presence of females on corporate board has gained legitimacy. The application of social

Table 5.3 Key Implications for corporate governance literature

Study	Implications for Corporate Governance Literature
Study 1	➢ The application of social psychological theories (Role Congruity Theory and Status Characteristics Theory) complements resource dependence theory in board research by providing new lens to examine the effects of board gender dynamics. ➢ It offers the possibility to reconcile mixed findings in previous literature regarding the effect of greater gender diversity on boards. ➢ The study adds knowledge to the growing board chair literature. Instead of focusing on the duality role of board chair as in prior literature, this study shows that gender of board chair also plays a salient role in affecting board dynamics and its impact on strategic change. This work thus provides insight into how the demographic (gender) similarity between board chair and board members can be utilized to improve the status and influence of low-status individuals.
Study 2	➢ The study contributes to corporate governance literature by exploring how founders manage to balance the relationship between reserving power and obtaining legitimacy from external audiences through his/her retention on boards of directors. ➢ By examining the potential impacts of retaining founders, this study contributes to the symbolic perspective in corporate governance by applying it to an interesting but under-researched scenario.
Study 3	➢ This study complements agency theory by explaining showing that independent directors are not always “independent” and “neutral” as expected. It also complements resource dependence theory by examining the factors that can influences IDs’ decision to contribute resources. ➢ Furthermore, by associating the professional identity of IDs and their behavioral patterns, the theoretical framework developed in this study seeks to add knowledge to the small but growing number of studies that have addressed the relevance and importance of psychological perspectives in board research (Hillman, Nicholson, & Shropshire, 2008). ➢ Finally, the study also investigates the role of boards in connecting business and government, and it also portrays a picture about how boards, as the governance body in company, could be utilized to reflect the expectations and interests of diverse stakeholders (e.g. government and institutions).

psychological theories (*Role Congruity Theory* and *Status Characteristics Theory*) complements resource dependence theory in board research by providing new lens to examine the effects of board gender dynamics. It also offers the possibility to reconcile mixed findings in previous literature regarding the effect of greater gender diversity on boards. In addition, the study adds knowledge to the growing board chair literature. Instead of focusing on the duality role of board chair as in prior literature, this study shows that gender of board chair also plays a salient role in affecting board dynamics and its impact on strategic change. This work thus provides insight into how the demographic (gender) similarity between board chair and board members can be utilized to improve the status and influence of low-status individuals.

Study 2 contributes to corporate governance literature by exploring how founders manage to balance the relationship between reserving power and obtaining legitimacy from external audiences through his/her retention on boards of directors. As a firm grows and becomes more mature, the founder might lack the necessary management skills to meet the changing demands from the environments. In addition, his or her objectivity in evaluating firm's capability could also be questioned by the stakeholders. Therefore, a succession event and the appointment of a new CEO could convey positive information to external constituents regarding the firm's transformation and growth. It also shows that the founding team acknowledges the necessity and importance of adopting good governance practices, upgrading management structure, and improving the decision-making processes. However, when the event is accompanied by the retention of the founder as board chair, it might merely serve a symbolic function rather than a signal of substantive changes in the post succession period. By examining the potential impacts of retaining founders, this study contributes to the symbolic perspective in corporate governance by applying it to an interesting but under-researched scenario.

Study 3 provides explanations for the inconsistent findings regarding the effectiveness of board independence. It complements agency theory by showing that independent directors are not always "independent" and "neutral" as expected. It also complements resource dependence theory by examining the factors that can influence IDs' decision to contribute resources. Furthermore, by associating the professional identity of IDs and their behavioral patterns, the theoretical framework developed in this study seeks to add knowledge to the small but growing number of studies that have addressed the relevance and importance of psychological perspectives in board research (Hillman, Nicholson, & Shropshire, 2008). Finally, the study also investigates the role of boards in connecting business and government, and it also portrays a picture about how boards, as the governance body in company, could be utilized to reflect the expectations and interests of diverse stakeholders (e.g. government and institutions).

5.4 Directions for Future Research

As all other scholarly research, this thesis wouldn't be able to fully address all relevant aspects in the effectiveness of corporate governance and leadership structure and their roles in strategic management and firm performance. We would like to point out several directions for future research and call attention from scholars to devote efforts in the following aspects.

First, this thesis takes a behavioral perspective and adopts social psychological theories to investigate board effectiveness and its implications for both strategic management and firm performance. Specifically, we've examined directors' behavioral patterns in two scenarios: board gender diversity and independent directors (IDs). Both scenarios are constantly showed to have important implications for board effectiveness in terms of strategic and monitoring roles (e.g. Duchin et al., 2010; Ma & Khanna, 2015; Nielsen & Huse, 2010a; Torchia, Calabrò, & Huse, 2011). With regard to board gender diversity research, prior research has mostly treated female directors as a united group, and the focus is also laid upon the difference between the two gender groups. As it has built the foundations for the research stream, there is clearly a demand for more research on the exploration of the differences within the group of female directors. For example, some female directors might possess key resources (such as skills and social networks), which can greatly enhance their influences on board. These female directors are also likely to have more power and intensified involvement in strategic decision-making process. Therefore, future studies might investigate how the power gap among female directors can influence the gender dynamics in the boardroom. For instance, it would be interesting to observe whether the presence of female directors with key resources would play a similar role to female board chair and improve the status of other female directors. Also, besides the impacts on strategic change, how gender dynamics would influence the initiation and implementation of other strategies, such as innovation and acquisition, could enhance our understanding on the connections of gender composition and strategic management in organizations.

Regarding research on IDs, future research could add new knowledge to current literature from at least two directions. The first is the expected roles and functions of IDs. It's critical to pay attention to the specific institutional and other contextual factors that shape the environment where the organizations and boards are situated. In western economies where the system of IDs originated and bloomed, the initial purpose was to enhance the monitoring role of board, in the wake of corporate governance crisis and scandals in 1970s (Gordon, 2007). But as globalization process and corporate governance reforms become increasingly intense for the last several decades, researchers have raised widely-held discussions on the strategic roles of IDs in organizations (see Pugliese et al., 2009 for a review) and how their voices matter in strategic decisions (e.g., Balsmeier, Buchwald, & Stiebale, 2014; Kim, Mauldin, & Patro, 2014). Similarly, when the established and well-developed practice of IDs was diffused from developed economies to emerging economies, some of the key contextual factors where the system has been developed also changed. For example, the conflicts between shareholders and managers might become less salient than the conflicts between majority shareholders and minority shareholders in listed companies, which is referred by corporate governance as "principal-principal" conflicts as opposed to the traditional "principal-agent" conflicts (see Young et al., 2008 for a review). Therefore, it demands special attention and efforts to explore the role of institutional factors and enrich our understanding of IDs' duties and functions.

The other direction within IDs research lies in the motivations for IDs to take the position and the driving factors that lead to specific behavioral patterns of these individuals on corporate boards. In general, directors' motivation is an important but underexplored research issue in corporate governance (Hambrick et al., 2008). Although there has been some development from economic perspective (e.g., Adams & Ferreira, 2008; Masulis & Mobbs, 2014), it has been mainly focusing on the issue in relation to IDs' monitoring function. In contrast, it remains unclear what would be the drives for IDs to take the position, taking into consideration the time that they would spend on strategic decision making in organizations. In addition, even less attention has been paid to directors' motivation in different institutional environment. For example, in emerging economies such as China, the weak institutional environment and the short history of the implementation of ID system and other internal governance mechanisms together have resulted in the lack of mature labor market of IDs, where they are normally evaluated and selected based on their past performance (Masulis & Mobbs, 2014). Instead, social networks and connections (referred as *guanxi*, see Chen, Chen, & Huang (2013) for a review) are considered to be more important factors when appointing new IDs (Kim & Cannella, 2008). Therefore, in such environment, the motivations and incentives of IDs could also vary.

Second, we have also examined the behavioral processes of boards of directors and CEOs, with a focus on a more macro level by using a symbolic management perspective. Besides legal requirements, it’s also vital for organizations to comply with the normative pressures, such as good corporate governance practices (Hambrick et al., 2008). Therefore, organizations may use symbolic actions to manage the perceptions of stakeholders in order to achieve and maintain legitimacy from environments. Although the symbolic management perspective in corporate governance research has been developed for more than twenty years since the series of original studies (Westphal & Zajac, 1994, 1998a; Zajac & Westphal, 1995), most of the research has been conducted in a single institutional environment – USA. On the contrary, although institution plays a significant role in shaping the perceptions of stakeholders and shareholders about what constitutes good corporate governance, surprisingly little research has addressed its role, with only a few exceptions (Markóczy, Sun, Peng, Shi, & Ren, 2013).

Amongst the few studies to address the sparse research, our study takes into consideration the institutional factors in symbolic management and examines how founder CEO succession events in Chinese listed companies could be utilized as symbolic actions to satisfy the changing demands from external stakeholders and shareholders. Future research could contribute to the conversation both theoretically and empirically. For instance, researchers could examine how the institutional environment in emerging economies could alter the perceptions of stakeholders and shareholders and change the expectations about corporate governance in organizations and how the changed evaluation criteria of good governance practices could influence the symbolic actions taken in organizations. It would also be interesting to examine the issue in cross-cultural contexts. In the globalization process, an increasing number of organizations in emerging economies start to do business and go listed in more developed economies. How they adapt to shared perceptions about good governance practices in a different context and use corresponding communication skills in corporate governance policies to meet the varied demands in different cultures and economies would also enrich our current understanding in symbolic management research.

5.5 Final Conclusions of the Thesis

In conclusion, the thesis examines the effectiveness of corporate governance arrangements and leadership structure and their consequences on firm strategic and financial outcomes in both developed and emerging economies. Specifically, we focus on the role of behavioral processes on both micro and macro level to investigate the relationship. On micro level, we use social psychological theories to examine the behavioral patterns and dynamics of directors on corporate boards. On macro level, we adopt a symbolic management perspective to investigate how organizations manage the perceptions of external stakeholder and shareholders by taking symbolic actions in the leadership. Based on the main research questions, we have developed three complementary studies, each of which addresses one specific and different aspect within the research boundary outlined. Through the thesis, we seek to add new insights into both corporate governance and strategic management literature by showing how the impacts of boards of directors and corporate governance mechanisms on firm-level outcomes are contingent on institutional factors and behavioral dynamics within the board. We also hope this thesis could provide inspirations for scholars and practitioners in both developed and emerging economies to achieve a better understanding of board effectiveness and its consequences.

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Summary of the Thesis

Summary in English

How to assess and improve the effectiveness of corporate governance to accommodate the demands of strategic decision making has been one of the top concerns among both scholars and practitioners. While extensive research has taken an economic view when investigating corporate governance mechanisms in previous research, more recently, an increasing number of studies have gradually shifted attention to alternative views to incorporate factors that have been rarely addressed before. This thesis seeks to join the conversation and contribute to corporate governance and strategic management literature by taking a behavioral perspective and investigating the contextual factors through three studies. *Study 1* examines the relationship between board gender diversity and firm's strategic change. Building on *Status Characteristics Theory* and *Role Congruity Theory*, the study shows that a gender diverse board may have difficulties in internalizing gender-related resources and utilizing them for firm's strategic change. It further shows that bringing legitimacy to the presence of female directors is important to facilitate the utilization of resources brought in by female directors. *Study 2* takes the *Symbolic Management Perspective* to explore how the founder CEO succession events could be used as symbolic actions to signify strategic change without substantial changes. It shows that the founder's retention could largely influence the occurrence of strategic change in the post-succession period, and the impact is affected by post-succession firm performance and founder tenure as CEO. *Study 3* investigates the relationship between politically connected independent directors and firm performance in short and long run. By building a *Professional-Identity Based View* of independent directors, this study shows that independent directors who have different identities derived from respective professions will lead them to exert different influences on firm's financial outcomes. The three studies together contribute to different but related aspects of corporate governance and strategic management research and add to a better understanding of corporate governance effectiveness in both emerging and developed economies.

Summary in Chinese

长期以来，如何评估以及改进公司治理机制的有效性从而使之适应公司战略发展的需要都是学术界和实业界重点关注的战略热点之一。在前期的探索中，大量的研究都采用了经济学的视角专注分析公司治理机制的正式结构的有效性。而在近期，越来越多的学者开始把注意力转移到新的理论和视角的产生，尤其是之前较少关注的公司治理机制的非正式结构方面。本论文在这样的背景下产生，采用行为学的视角研究公司治理与公司治理的相关性，并且通过三篇文章探索影响公司治理有效性的情境因素。文章一检验董事会成员性别多样性与公司战略变革的关系。以地位特征理论以及角色不一致性理论为基石，该文章发现，女性比例高的董事会在吸收利用性别相关资源方面存在困难，因此战略变革的程度也会受到负面影响。文章二采用象征管理理论视角研究创始人 CEO 交替事件是如何被用来向外界传递战略变革的信号却避免了组织内实质性的战略变革。该文章的研究结果展示，如果创始人在卸任 CEO 之后继续担任董事会主席，那么组织的战略变革程度将会被削弱。这种相关关系受到两个情境因素的调节作用：CEO 交替后的公司绩效以及创始人担任 CEO 的年限。文章三研究政治关联的独立董事和公司长期/短期绩效关系。在认知理论的基础之上，该文章发展了职业认知理论并且将之运用在独立董事研究中。结论表明独立董事各自的外部职业赋予他们的独特认知会导致他们对企业绩效产生不同的影响。这三个研究各自关注公司治理和战略管理交互关系中不同而又紧密联系的几个方面， 并且致力于加深对发展以及发达经济体中公司治理有效性的认识、理解和改进。

Summary in Dutch

Het beoordelen en verbeteren van de effectiviteit van corporate governance in het accommoderen van strategische besluitvormingseisen wordt als uiterst belangrijk ervaren in de wetenschap en praktijk. In het verleden is bij onderzoek naar corporate governance mechanismen bovenal een economische lens gebruikt. Meer recentelijk zijn echter in toenemende mate studies gepubliceerd waarin alternatieve perspectieven worden geïntroduceerd om factoren te adresseren die voorheen zelden belicht werden. In lijn met deze ontwikkeling draagt deze thesis bij aan de literatuur over corporate governance en strategisch management door vanuit een gedragsperspectief contextuele factoren te onderzoeken door middel van drie studies. De eerste studie focust op de relatie tussen geslachtsdiversiteit in het bestuur en strategische verandering van een onderneming. Deze studie bouwt voort op 'Status Characteristics' theorie en 'Role Congruity' theorie en toont aan dat besturen met diversiteit in geslacht problemen kunnen ondervinden met het internaliseren van geslachts-gerelateerde middelen en met het toewenden van deze middelen voor strategische verandering van hun onderneming. Daarnaast laat de studie zien dat het verder legitimeren van de aanwezigheid van vrouwelijke bestuursleden belangrijk is voor het faciliteren van het aanwenden van middelen die door hen zijn ingebracht. De tweede studie adopteert een symbolisch management perspectief om te verkennen hoe gebeurtenissen rondom de opvolging van de oprichtende CEO kunnen worden vertaald in symbolische acties om strategische vernieuwing te belichten zonder substantiële veranderingen. Deze studie laat zien dat het behoud van de oprichter een sterke invloed kan hebben op het plaatsvinden van strategische veranderingen in de periode na de opvolging; de relatie wordt beïnvloed door de performance van de onderneming in deze periode en de tijd dat de oprichter de functie van CEO heeft bekleed. In de derde studie wordt de relatie onderzocht tussen politiek verbonden onafhankelijke bestuursleden en prestaties van de onderneming op de korte en lange termijn. Door te bouwen aan een beeld van onafhankelijke bestuursleden dat is gebaseerd op professionele identiteit toont deze studie aan dat onafhankelijke bestuursleden die worden gelinkt aan verschillende identiteiten in lijn met hun functies geneigd zullen zijn om verschillende invloeden uit te oefenen op de financiële performance van een onderneming. De drie studies dragen gezamenlijk bij aan diverse aan elkaar gerelateerde aspecten van onderzoek naar corporate governance en strategisch

management, en bieden meer inzicht in de effectiviteit van corporate governance in zowel opkomende als hoogontwikkelde economieën.

About the Author

Ying Feng (born 1987, Jiujiang) did her PhD candidacy at the Department of Strategic Management & Entrepreneurship in Rotterdam School of Management, Erasmus University. Her research interests focus on the strategic decision-making processes of boards of directors, top management teams, CEOs, and how their behavioral patterns and characteristics could exert influences on firm-level outcomes, such as financial performance and strategic change. Her work has been increasingly recognized at various prestigious international management conferences, including *Academy of Management* (AoM), *Strategic Management Society* (SMS), *European Group for Organization Studies* (EGOS), and *European Academy of Management* (EURAM). Her work was also nominated for the Best Conference Paper Prize in SMS 2013. Besides, she has also been invited to present her research papers at many leading universities and institutions across Europe. Ying is now working as an Assistant Professor in ESC Rennes School of Management, France.

Portfolio

Papers under Review and Work in Progress

- Feng, Y., Sidhu, J.S., Volberda, H.W., & Van Den Bosch, F.A.J. 2017. *Politically Connected Independent Directors' Professional Identities, Board Behavior and Firm Performance in Chinese Listed Companies.* **Preparing for the 2nd round review at *Management and Organization Review***
- Feng, Y., Sidhu, J.S., Volberda, H.W., & Van Den Bosch, F.A.J. 2017. *Women on Corporate Boards and Strategic Change: How Gender of Board Chair Makes a Difference.* **In final preparation for submission, Target journal: *Journal of Management***
- Feng, Y. 2017. *TMT Behavioral Integration and Corporate Entrepreneurship: The Moderating Role of Institutional Support.* **In final preparation for submission, Target journal: *Entrepreneurship Theory and Practice***
- Feng, Y., Sidhu, J.S., Volberda, H.W., & Van Den Bosch, F.A.J. 2017. *A New CEO but the Same Old Ways: Founder CEO Succession as Symbolic Management in Chinese Firms.* **Preparing for submission, Target journal: *Strategic Management Journal***
- Feng, Y. Sidhu, J.S., Volberda, H.W., & Van Den Bosch, F.A.J. 2017. *Role Identity of Female Directors and Firm Acquisition Activity: Evidence from Germany.* **Target journal: *Strategic Management Journal***
- Feng, Y. 2017. *Cumulative Voting and Family Firm Value in China: The Moderating Role of Family Control and Blockholder Identity.* **Target journal: *Asia Pacific Journal of Management***

Invited Lectures

- Adam Smith Business School, University of Glasgow, Glasgow, UK, 2015
- Lancaster University Management School, Lancaster, UK, 2015
- Leeds University Business School, Leeds, UK, 2015
- Henley Business School, University of Reading, Reading, UK, 2016

Conference Papers and Presentations

- SMS Annual & Special Conferences
  - Feng, Y.. *Cumulative Voting and Family Firm Value in China: The Moderating Role of Family Control and Blockholder Identity*, Denver, Oct. 3rd - 6th, 2015

- Feng, Y., Sidhu, J.S., Volberda, H.W., & Van Den Bosch, F.A.J.. *Independent Directors' Professional Identities, Board Effectiveness and Firm Performance*, Copenhagen, Jun. 14th – 15th, 2014
- Feng, Y. & Sidhu, J.S.. *Founder CEO Succession: The Effects on Strategic Change and Market Reaction*, Atlanta, Sep. 28th – Oct. 2nd, 2013
- Feng, Y. & Sidhu, J.S.. *External and Internal Contexts: Effectiveness of Corporate Governance Mechanisms and Firm Performance in China*, Guangzhou, Dec.14th– 16th, 2012
- Feng, Y. & Sidhu, J.S.. *Why do Outside Directors Serve on Boards? Directors' Motives and Board Effectiveness*, nominated for best paper prize at SMS Annual Conference, Prague, Oct. 7th – 9th, 2012

- AOM Annual Conference
  - Feng, Y., Sidhu, J.S., Volberda, H.W., & Van Den Bosch, F.A.J.. *A New CEO but the Same Old Ways: Founder CEO Succession as Symbolic Management in Chinese Firms,* Vancouver, Aug. 7th – 11th, 2015
  - Feng, Y., Sidhu, J.S., Volberda, H.W., & Van Den Bosch, F.A.J.. *Politically Connected Independent Directors' Professional Role Identities, Board process, and Firm Performance,* Philadelphia, Aug. 1st – 5th, 2014
  - Feng, Y. TMT *Behavioral Integration and Corporate Entrepreneurship: The Moderating Role of Institutional Support,* Philadelphia, Aug. 1st – 5th, 2014
- EGOS Annual Conference
  - Feng, Y. & Sidhu, J.S.. *Independent Directors' Role Identities and Board Monitoring: How Externally Situated Perceptions Influence Director Behavior and Firm Performance,* Montreal, Jul. 2nd – 6th, 2013
- EURAM Annual Conference
  - Feng, Y., Sidhu, J.S., Volberda, H.W., & Van Den Bosch, F.A.J.. *Independent Directors' Professional Role Identities, Board Effectiveness, and Firm Performance,* Valencia, Jun. 4th – 6th, 2014

Selected Awards and Honors

- Trustfonds Grant, Erasmus University Rotterdam, 2013, 2014, 2015
- Nomination of Best Conference Paper Prize, Strategic Management Society, 2012
- Doctoral Workshop Scholarship, Strategic Management Society, 2012
- Graduate Scholarship, Nanjing University, 2008-2011

Teaching Activities

- Master course
  - Master Dissertations in Strategic Management and Entrepreneurship, 2011-2015
  - Master Dissertations in Strategic Management/Organizational Studies/Supply Chain Management/Business Information Management, 2013-2016
- Undergraduate course
  - Organizational Theory & Dynamics, 2015
  - Bachelor Internship, 2014-2015

Professional Activities

- Research project: "Research on Human Resource Management in China Firms in Transformational Economics", funded by National Natural Science Foundation of China (No: 70732002), 2008 – 2011
- Consultancy project: "Human Resource Management in Shuangdeng Group (China)", 2008

PhD courses

- Advanced Statistical Methods
- Advanced Survey Methods
- Advanced Topics of Research in Strategy
- Applied Quantitative Methods
- EDEN Doctoral Seminar on Corporate Governance
- Philosophy of Science
- Research Methodology & Measurement.
- Scientific Integrity
- Social Network

Languages

Chinese: Native speaker; English: Professional proficiency

Empirical Research Methods and Analytic Tools

Stata, SPSS, Interview-based survey

ERIM Ph.D Series Research in Management

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Dissertations in the last five years

Abbink, E.J., *Crew Management in Passenger Rail Transport,* Promotors: Prof. L.G. Kroon & Prof. A.P.M. Wagelmans, EPS-2014-325-LIS, http://repub.eur.nl/pub/76927

Acar, O.A., *Crowdsourcing for Innovation: Unpacking Motivational, Knowledge and Relational Mechanisms of Innovative Behavior in Crowdsourcing Platforms*, Promotor: Prof. J.C.M. van den Ende, EPS-2014-321-LIS, http://repub.eur.nl/pub/76076

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Alexander, L., *People, Politics, and Innovation: A Process Perspective*, Promotors: Prof. H.G. Barkema & Prof. D.L. van Knippenberg, EPS-2014-331-S&E, http://repub.eur.nl/pub/77209

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How to assess and enhance the effectiveness of corporate governance to improve strategic decision-making processes has been one of the top concerns among scholars and practitioners. While extensive research has taken an economic view when examining board effectiveness, more recently, an increasing number of studies have gradually recognized the importance of alternative views in conducting board research. The thesis seeks to join the conversation by taking a behavioral perspective and investigating the contextual factors in corporate governance research.

Based on three studies, the thesis examines the impacts of corporate governance arrangements and leadership structure on firm strategic and financial outcomes on both micro and macro levels. On micro level, it uses social psychological theories to examine the behavioral patterns and dynamics of directors on corporate boards. On macro level, it adopts a symbolic management perspective to investigate how organizations manage the perceptions of external stakeholders and shareholders by taking symbolic actions in leadership positions. Through the thesis, I seek to add new insights into both corporate governance and strategic management literature by showing how the relationship between corporate governance mechanisms and firm-level outcomes is contingent on institutional factors and board behavioral processes. I also hope this thesis could provide inspirations for scholars and practitioners in both developed and emerging economies to achieve a better understanding of board effectiveness and its implications.

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