

The Pennsylvania State University

The Graduate School

The Mary Jean and Frank P. Smeal College of Business

**DO CHIEF EXECUTIVE OFFICERS MATTER MORE IN SOME COUNTRIES THAN
OTHERS? THE ANTECEDENTS AND CONSEQUENCES OF CROSS-NATIONAL
DIFFERENCES IN MANAGERIAL DISCRETION**

A Dissertation in

Business Administration

by

Craig Crossland

© 2008 Craig Crossland

Submitted in Partial Fulfillment
of the Requirements
for the Degree of

Doctor of Philosophy

May 2008

The dissertation of Craig Crossland was reviewed and approved* by the following:

Donald C. Hambrick
Smeal Chaired Professor of Management
Dissertation Advisor
Chair of Committee

Timothy G. Pollock
Associate Professor of Management

James B. Stewart
Professor of Labor Studies and Employment Relations, and African and African American
Studies

Wenpin Tsai
Associate Professor of Management

Dennis A. Gioia
Professor of Organizational Behavior
Head of the Department of Management and Organization

* Signatures are on file in the Graduate School

ABSTRACT

This dissertation examines cross-national differences in the extent to which CEOs matter to firm outcomes. To address this issue, I build on the construct of managerial discretion, or latitude of action. Most research in this domain has focused on the firm-level and industry-level factors that constrain or enable discretion. I extend managerial discretion research by adopting for the first time a broader interpretation of the firm's environment – the national level – in terms of its constraints on discretion. My dissertation consists of two major sections. First, I present a theoretical analysis discussing how cross-national differences in a number of informal institutions (e.g. social norms) and formal institutions (e.g. legal tradition) will differentially affect CEO discretion across countries. I also discuss the importance of institutional enforcement mechanisms and explore the inter-relationships among informal and formal institutions. Second, I present a theoretical and empirical analysis of some of the major consequences of cross-national differences in managerial discretion, including CEO effects, CEO characteristics, and the firm performance-CEO departure relationship. I find evidence that, compared to CEOs in low-discretion environments (e.g. Japan, South Korea), CEOs in high-discretion environments (e.g. U.K., U.S.) tend to be associated with larger CEO effects, earlier CEO entry, more heterogeneous CEO entry and exit, and a greater likelihood of departure following poor performance. I also examine whether the impact of national-level discretion is moderated by firm-level internationalization. Finally, I investigate whether these phenomena have changed significantly over time.

TABLE OF CONTENTS

List of Figures.....	viii
List of Tables.....	ix
Acknowledgements.....	xi
Chapter 1 – INTRODUCTION.....	1
1.1. Research Questions.....	6
1.2. Dissertation Overview.....	6
Chapter 2 – LITERATURE REVIEW.....	10
2.1. Two Polar Views of Executive Influence.....	10
2.1.1. Summary of the Organizational Basis of the Debate.....	11
2.1.2. Attempts to Find an Empirical Resolution.....	14
2.2. Managerial Discretion.....	16
2.2.1. Discretion as a Moderator of Upper Echelons Research.....	17
2.2.2. Discretion and Executive Compensation.....	18
2.2.3. Discretion and Perceived Discretion.....	19
2.2.4. Other Antecedents and Consequences of Discretion.....	20
2.2.5. Latitude of Actions versus Latitude of Objectives.....	21
2.2.6. Investment Opportunity Set.....	23
2.2.7. Summary and Critique.....	24
2.2.7.1. Measurement.....	24
2.2.7.2. Contributions.....	25
2.2.7.3. Opportunities for future research.....	26
2.3. Extending Managerial Discretion to the National Level.....	27
2.3.1. Philosophical Underpinnings.....	28
2.3.2. Psychological Correlates.....	30
2.3.3. Discretion in Non-corporate Fields.....	30
Chapter 3 – NATIONAL INSTITUTIONS AND MANAGERIAL DISCRETION: A THEORETICAL ANALYSIS.....	32
3.1. Informal Institutions.....	35

3.1.1. Norms Concerning Autonomous Actions.....	37
3.1.2. Norms Concerning Unpredictable Actions.....	38
3.1.3. Norms Concerning the Role of Leaders.....	39
3.1.4. Enforcement of Informal Institutions.....	41
3.2. Formal Institutions.....	43
3.2.1. Legal Tradition.....	45
3.2.2. Prevailing Firm Ownership Structure.....	48
3.2.3. Labor Market Flexibility.....	50
3.2.4. Political Order.....	52
3.2.5. Enforcement of Formal Institutions.....	53
3.3. Institutional Interrelationships and Reinforcement.....	55
Chapter 4 – MANAGERIAL DISCRETION AND CEO EFFECTS.....	58
4.1. Theory and Hypotheses.....	58
4.2. Methods.....	61
4.2.1. Sample.....	61
4.2.2. Managerial Discretion.....	62
4.2.3. Firm Performance.....	67
4.2.4. Analysis.....	67
4.2.4.1. CEO Effects.....	69
4.2.4.2. Weighted Least Squares Analysis.....	70
4.3. Results.....	71
4.4. Summary.....	73
Chapter 5 – MANAGERIAL DISCRETION AND CEO CHARACTERISTICS.....	74
5.1. Theory and Hypotheses.....	74
5.1.1. Managerial Discretion and CEO Roles.....	74
5.1.2. CEO Characteristics.....	76
5.1.2.1. CEO Entry Age.....	78
5.1.2.2. Heterogeneity of CEO Entry Age, Exit Age, and Tenure.....	80
5.2. Methods.....	83
5.2.1. Sample.....	83
5.2.2. CEO-level Variables.....	83
5.2.3. Firm-level and Industry-level Variables.....	84

5.2.4. Firm Internationalization.....	84
5.2.5. Country-level Variables.....	85
5.2.6. Analysis.....	85
5.3. Results.....	86
5.4. Summary.....	88
 Chapter 6 – MANAGERIAL DISCRETION AND FIRM PERFORMANCE-CEO DEPARTURE SENSITIVITY.....	 89
6.1. Theory and Hypotheses.....	89
6.2. Methods.....	91
6.2.1. Sample.....	91
6.2.2. Firm Performance.....	92
6.2.3. Other Firm-level and Country-level Variables.....	92
6.2.4. Analysis.....	93
6.3. Results.....	93
6.4. Summary.....	95
 Chapter 7 – THE MODERATING IMPACT OF FIRM INTERNATIONALIZATION.....	 97
7.1. Theory and Hypotheses.....	97
7.2. Methods.....	99
7.3. Results.....	100
7.3.1. CEO Effects.....	100
7.3.2. CEO Characteristics.....	100
7.3.3. Firm Performance-CEO Departure Sensitivity.....	101
7.4. Summary.....	101
 Chapter 8 – EXPLORATORY ANALYSIS: CHANGES OVER TIME.....	 102
8.1. Theoretical Discussion.....	102
8.2. Methods.....	104
8.3. Results.....	105
8.3.1. CEO Effects.....	105
8.3.2. CEO Characteristics.....	106
8.3.3. Firm Performance-CEO Departure Sensitivity.....	107
8.4. Summary.....	109

Chapter 9 – DISCUSSION AND CONCLUSION.....	110
9.1. Research Implications.....	112
9.2. Discretion across Levels of Analysis.....	115
9.3. Discretion and Global Competitiveness.....	116
9.4. Limitations.....	117
9.5. Conclusion.....	118
References.....	119
Appendix A – Figures.....	140
Appendix B – Tables.....	150
Appendix C – Recruitment E-mail for Expert Academic Panel.....	181
Appendix D – Informed Consent Form.....	182
Appendix E – Managerial Discretion Questionnaire.....	183

LIST OF FIGURES

Figure 1: National Institutions and Managerial Discretion.....	140
Figure 2: Consequences of Cross-national Differences in Managerial Discretion.....	141
Figure 3: Country-level Relationship between Managerial Discretion and CEO Effects.....	142
Figure 4: Median CEO Age at Entry, by Country.....	143
Figure 5: Heterogeneity of CEO Age at Entry, by Country.....	144
Figure 6: Managerial Discretion as a Moderator of the Firm Performance-CEO Departure Relationship.....	145
Figure 7: Magnitude of Performance Variance Attributable to CEO-level Factors, by Country (Longitudinal Sample).....	146
Figure 8: Country-level CEO Effects, by Performance Variable (Longitudinal Sample).....	147
Figure 9: Heterogeneity of CEO Entry Age, Exit Age, and CEO Tenure (Longitudinal Sample).....	149

LIST OF TABLES

Table 1: Summary of Propositions.....	150
Table 2: Sample of Firms by Industry and Country.....	151
Table 3: National-level Managerial Discretion Scores for 15 Countries, Based on Expert Panel Data.....	153
Table 4: Descriptive Statistics and Bivariate Correlations for National Institutions Data.....	154
Table 5: Mean and Imputed Managerial Discretion Scores for 23 Countries.....	155
Table 6: Summary of Variables.....	156
Table 7: Descriptive Statistics and Bivariate Correlations – CEO Effects Analyses.....	159
Table 8: WLS Regression: The Impact of Managerial Discretion on Magnitude of Firm Performance Variance Attributable to CEO-level Factors, for Five Performance Variables.....	160
Table 9: Magnitude of Performance Variance Attributable to CEO-level Factors, by Country.....	161
Table 10: WLS Regression: The Impact of Managerial Discretion on Proportion of Total Firm Performance Variance Attributable to CEO-level Factors, for Five Performance Variables.....	162
Table 11: CEO Entry Age and Heterogeneity of CEO Entry Age, by Country.....	163
Table 12: Heterogeneity of CEO Exit Age and CEO Tenure, by Country.....	164
Table 13: Descriptive Statistics and Bivariate Correlations – CEO Characteristics Analyses.....	165
Table 14: GLS Regression: The Impact of Managerial Discretion on CEO Entry Age.....	166
Table 15: WLS Regression: The Impact of Managerial Discretion on Heterogeneity of CEO Entry Age, CEO Exit Age, and CEO Tenure.....	167
Table 16: Descriptive Statistics and Bivariate Correlations – Firm Performance-CEO Departure Sensitivity Analyses.....	168

Table 17: Cox Regression: Firm Performance-CEO Departure Sensitivity, Return on Assets.....	169
Table 18: Cox Regression: Firm Performance-CEO Departure Sensitivity, Market-to-Book.....	170
Table 19: Cox Regression: Firm Performance-CEO Departure Sensitivity, Negative Net Income.....	171
Table 20: Cox Regression: Firm Performance-CEO Departure Sensitivity, Combined Poor Performance.....	172
Table 21: Magnitude of Performance Variance Attributable to CEO-level Factors, by Country (Longitudinal Sample).....	173
Table 22: Descriptive Data: CEO Entry Age, Exit Age, and CEO Tenure, by Country and Time Period (Longitudinal Sample).....	174
Table 23: GLS Regression: The Impact of Time on the Managerial Discretion-CEO Entry Age Relationship (Longitudinal Sample).....	175
Table 24: Cox Regression: Impact of Time on Firm Performance-CEO Departure Sensitivity, Return on Assets (Longitudinal Sample).....	176
Table 25: Cox Regression: Impact of Time on Firm Performance-CEO Departure Sensitivity, Market-to-Book (Longitudinal Sample).....	177
Table 26: Cox Regression: Impact of Time on Firm Performance-CEO Departure Sensitivity, Negative Net Income (Longitudinal Sample).....	178
Table 27: Cox Regression: Impact of Time on Firm Performance-CEO Departure Sensitivity, Combined Poor Performance (Longitudinal Sample).....	179
Table 28: Summary of Hypotheses.....	180

ACKNOWLEDGEMENTS

Wonders will truly never cease. I can't quite believe that I'm sitting here writing the final section of a Ph.D. dissertation in business administration at Penn State, when not that long ago I was wandering through life as a disgruntled physiotherapist with no real idea of my future other than that I didn't want to be a disgruntled physiotherapist anymore. Nevertheless, eight years, several countries, two degrees, and one major life change later, here I am. I could say that this nifty little piece of profession-jumping was all due to nothing more than my own intelligence, good looks, and manly physique. I would, of course, be lying. Utterly. The list of people that I need to thank sincerely for getting me to this point is long, wide, deep, and dense.

I must start by thanking my advisor, Don Hambrick. If, by the end of my academic career, I have become one-tenth the scholar that Don is now, I will have done well. In addition to being an outstanding researcher, an excellent teacher, and an inspiring mentor, Don is generous with his time and advice in a way that shouldn't be possible for one who has so many people clamoring for his attention. Don, I will always owe you more than you can possibly know. My thanks also go to the other members of my dissertation committee: Tim Pollock, Jim Stewart, and Wenpin Tsai. Thank you for all of your comments, suggestions, and insights, and especially for never complaining about the quality of my early dissertation drafts, even though I suspect some of them appeared to be laced with visual tryptophan.

I also need to thank several others who provided direct assistance with my dissertation. Thanks to the Smeal College of Business, which provided financial assistance in the form of a Smeal Dissertation Research Grant. Thanks also to Don Hambrick for providing financial assistance. Thanks to Christine Ahmadjian, Kwangho Kim, Ho Suk Lee, Kazuyo Morita, and Karl Muller for their assistance with data collection.

My interest in doing a Ph.D. in the first place was initially sparked by Pat Gibbons, of University College Dublin, during my MBA. I owe Pat sincere thanks for introducing me to the field, directing me toward Penn State, and acting as my primary referee. He also bought me dinner at the Seattle Academy of Management meeting in 2003 and told me it was my turn when I had a job. Pat, I hope you're coming to Anaheim this year. The lobster and Moet* are on me.

I'd next like to thank Denny Gioia, David Ketchen, David Krackhardt, and Chuck Snow, each of whom were brave (and foolish) enough to allow me to co-author papers with them. In this vein, I owe special thanks to Martin Kilduff and Wenipn Tsai, who I have had the privilege of collaborating with throughout my entire Ph.D. program. All errors and omissions were undeniably my own. Also, thanks to Dave Harrison, who is heavily responsible for whatever methodological facility I might currently possess, and to Holly Packard, for her administrative and bureaucratic wizardry.

The faculty and staff members in Penn State's Management and Organization department, both past and present, have been extraordinarily helpful to me over the past five years. Thanks to Toni Auman, John Austin, Nicole Bodnar, Forrest Briscoe, Dean Bunnell, Kelly Delaney-Klinger, Shirley Kovach, Jim Detert, Debbie Ettington, Raghu Garud, Barbara Gray, Karen Jansen, Glen Kreiner, Jack Stevens, Gerry Susman, and Linda Trevino.

One of the nicest things about the Ph.D. program was sharing the experience with such a great cohort. Thanks to Guoli Chen, Bret Fund, Kristin Price, and Hong Ren for keeping me sane. Thanks also to the rest of the students in the M&O department and in the rest of the Smeal College. Particular thanks go to Dave LeBaron and Brian Miller, who helped me survive BA591, and to Colin Jones, Tim Quigley, and Adam Wowak for allowing themselves to be dragged to various downtown bars on a regular basis and helping me solve the world's problems.

* Chicken schnitzel and beer

In State College, thanks to Neil, Sharon, Charlie, Phebe, and Leni Herlocher for making me one of the family. Who knew that basements could be beautiful? Thanks to Bernie Cantorna, Craig Fahey, Andy Haines, Ryan Koseski, Alex Lamont, Gabe and Jud Millar, and the rest of the Happy Valley Barbarians for reminding me that rugby players speak a universal language. Finally, thanks to Theresa Foley, who makes me very happy and who will always remain my academic senior by having successfully defended her dissertation twelve days before I did. Curses.

Over the years, my friends in Australia have become used to my absence during their regular get-togethers. It would embarrass us all if I were to say how much I miss them, so I'll just say thanks to Mark Alexander, Matt Bannan, Michael Bourke, Dan Mellifont, Bob Rosenberg, and Ben Willis for not forgetting that I exist. Even though I lied about being the outdoor type, I promise I'll keep coming back to BrisVegas for Muddy Pool weekends.

My dissertation is about how much CEOs matter. The last people I have to thank are those who matter the most to me and to whom I owe the most. My parents, Yvonne McGann and Dennis Crossland, my step-parents, Dennis McGann and Amy Crossland, and my brothers, Matthew and Anthony, have consistently been sources of support, encouragement, and entertaining e-mails since I started at Penn State in August 2003. I could not have completed this without you. You boosted my confidence, ensured that I never took things too seriously (upon hearing that a book chapter of mine was to be entitled, "Multi-firm Collaboration and International Competitive Dynamics," Mum replied, "Well, that'll be a best-seller..."), and reminded me what is most important in life. In the immortal words of the boxer-poet Jeff Fenech, I love youse all.

Chapter 1

INTRODUCTION

Do CEOs matter? Over the last several decades, organizational scholars have tended to approach this question from polar perspectives. On one side is much of the work in the field of strategic management. From classic management treatises (Barnard, 1938) to empirical studies of corporate executives (Wiersema & Bantel, 1992) to modern blueprints for commercial reinvention (Collins, 2001), research from this perspective generally proceeds on the assumption that managers and leaders do indeed matter significantly to the outcomes of their firms. On the other side is work mostly in the field of organization theory. Research streams such as resource dependence (Pfeffer & Salancik, 1978), population ecology (Hannan & Freeman, 1977), and contingency theory (Lawrence & Lorsch, 1967) tend to assume instead that executives are relatively powerless in the face of overwhelming environmental and organizational constraints.

In an attempt to reconcile these two competing perspectives, Hambrick and Finkelstein (1987:371) introduced managerial discretion, defined as latitude of managerial action, as a way to understand whether, and when, executives will have strategic choice (Child, 1972). According to this view, managers matter to the extent to which they possess discretion. As originally discussed, the antecedents of managerial discretion exist at three levels: individual factors (e.g. internal locus of control), organizational factors (e.g. powerful inside forces), and environmental factors (e.g. industry structure). Although little work has examined individual-level antecedents (Carpenter & Golden, 1997), a growing body of research has begun to explore the organization-level (e.g. Finkelstein & Boyd, 1998) and environment-level (e.g. Hambrick & Abrahamson, 1995) factors that constrain or enable discretion. In addition, some work has

begun to develop and broaden the construct of discretion itself, including discussions concerning the importance of latitude of objectives (Shen & Cho, 2005), the organizational task environment (Boyd & Gove, 2006), and managerial activities (Finkelstein & Peteraf, 2007). To this point, however, almost all research examining environment-level influences on discretion has equated a firm's environment exclusively with its industry. Little work has examined broader manifestations of a firm's environment, most notably national-level factors, or the macro-environment within which firms are embedded.

That national-level sources of discretion have not yet been explored is surprising in light of the increasing amount of research that suggests organizational phenomena are not necessarily identical, or even similar, across countries. Single-country studies of corporate leaders (Fidler, 1981; Mannari, 1974; Muna, 1980), as well as broader analyses of cross-national differences in corporate governance, the role of government, and the impact of globalization (Aguilera & Jackson, 2003; Bhagwati, 2004; Griffiths & Zammuto, 2005; Kim & Prescott, 2005; Spencer, Murtha, & Lenway, 2005; Stiglitz, 2003), all strongly suggest that we cannot assume discretion levels will be consistent cross-nationally. For example, in the introduction to the recent GLOBE study of cultural values, House and Javidan (2004:10) wrote:

We also believe that the amount of influence, prestige, and privilege given to leaders varies widely by culture. In some cultures, there are severe constraints on what leaders can and cannot do. In other cultures, leaders are granted a substantial amount of power over followers and are given special privileges and high status.

Furthermore, the existence of national-level variance in managerial discretion would help to explain some of the many differences in the context, status, and behavior of executives across countries. For example, after accounting for firm size, firm performance, and industry, CEOs from some countries (e.g. U.K., U.S.) receive considerably larger compensation packages,

including a higher proportion of incentive-based compensation, than CEOs from other countries (e.g. Japan, South Korea) (Towers Perrin, 2002). There also appear to be ongoing cross-national differences in the rates of executive departure (Lucier, Schuyt, & Tse, 2004), market responses to executive actions (Ihlwan & Kiley, 2006), and the strategic priorities of CEOs themselves (Barrington & Silvert, 2004). Each of these examples, along with other interesting international business phenomena (e.g. the continuing absence of a globally integrated executive labor market (Conyon & Murphy, 2000)) may be more fully understood if we consider the possibility of stable, systematic, national-level differences in discretion.

I address this issue in several ways. First, I ask whether managerial discretion is a sufficiently universal construct to warrant consideration at the national level. I argue that, while discretion has so far been examined almost exclusively within the context of the United States, research from a range of literatures outside the field of organization science provides strong support for the notion that discretion is indeed a universal construct. Second, I discuss the national-level factors that will be associated with differences in discretion across countries. Building on research in new institutional theory from a range of disciplines (e.g. Coase, 1998; Ingram & Clay, 2000), I argue that managerial discretion will vary cross-nationally in line with variance in informal institutions, formal institutions, and enforcement characteristics. Third, I examine the likely consequences – for CEOs, firms, and countries – if there are indeed national-level differences in discretion. Specifically, I investigate how differences in discretion across countries are associated with differences in CEO effects, CEO roles, CEO characteristics, and the CEO succession process.

Institutions are societal “rules of the game” (North, 1990: 3), or the consensually-devised constraints on human behavior. Institutional research addresses the more stable, inertial, and

resilient elements of social structure (Brinton & Nee, 1998; Tolbert & Zucker, 1996). The national context within which a firm operates and competes may thus be productively analyzed in terms of institutions. Most work in this research stream has focused on formal institutions – economic rules, political rules, regulations, and contracts. At least equally important, though, are informal institutions – social norms, mores, values, and codes of behavioral conduct (Helmke & Levitsky, 2006) – and the manner in which institutions are enforced. Competitive activity, even in our contemporary era, continues to be strongly influenced by national institutions. Or, as Friedman (1999:158) states, in a globalized world, nations become more, not less, important.

In this dissertation, I discuss how informal institutions, formal institutions, and their enforcement characteristics will impact discretion at the national level. By way of illustration, I examine in detail how several specific, fundamental institutions will affect discretion. In terms of informal institutions, I discuss the impact of societal norms regarding autonomous actions, unpredictable actions, and the role of leaders. In terms of formal institutions, I discuss the impact of legal tradition, prevailing firm ownership structure, labor market flexibility, and political order. In addition, I examine the interrelationships between informal and formal institutions, including the extent to which specific institutions reinforce each other. I argue that, while the two types of institutions are interdependent, the direction of causal primacy runs more strongly from informal to formal institutions than vice versa.

My dissertation builds on some recent initial work in this domain (Crossland & Hambrick, 2007). In this study, we examined whether CEO effects (defined as the proportion of firm performance variance attributable to CEOs, after accounting for year, industry, and firm effects) differed across U.S., German, and Japanese national contexts. We found that U.S. CEOs were attributable to a significantly greater proportion of firm performance variance than, in

order, German and Japanese CEOs. Our study therefore provides some initial evidence that CEO effects and, perhaps, discretion may vary cross-nationally, at least in the three countries that we considered. My dissertation builds on this study, and extends the strategic management literature more generally, by examining in detail the nature, antecedents, and consequences of cross-national differences in CEO discretion.

Two further comments should be made concerning the scope of this dissertation. First, similar to Hambrick and Finkelstein (1987: 370), I focus primarily on the discretion of a firm's chief executive officer. I do not address the discretion of board members, middle managers, line managers, other employees, or the firm itself. Second, I focus on large public firms. While in some ways this produces more stringent tests of my hypotheses, I do not examine how the conclusions reached in this dissertation might apply to organizational forms such as sole proprietorships, partnerships, large private firms, and state-owned enterprises.

This dissertation offers several contributions to the strategic management literature. First, this is the first attempt to comprehensively explore cross-national differences in managerial discretion. Complementing extant work on the industry-level, firm-level, and individual-level antecedents of discretion, this dissertation extends discretion to the national level. To that end, I provide empirical evidence to support the extension of the managerial discretion construct to the national level.

Second, at a broader level, this dissertation helps to integrate strategic management research and institutional research. The majority of institutional work is largely silent on the firm-level implications of national-level institutions. Although there have been some recent attempts to explore the interaction between national-level institutions and firm-level behavior (e.g. Morgan, Whitley, & Moen, 2005), this is largely lacking from institutional research. This

dissertation helps to link the more deterministic (or over-socialized) institutional perspective with the more agentic (or under-socialized) strategic management literature, by focusing specifically on the impact of institutions on agency.

Finally, this dissertation also contributes to institutional research through the integration of existing work on different types of institutions. Very few scholars have addressed the impact of all three key institutional elements – informal, formal, and enforcement – on particular cross-national phenomena (in this case, discretion) (North, 1993). Similarly, much of the research into national institutions has examined in great detail, usually in the form of case studies, the nature of single institutions (e.g. corporate governance) within specific countries (e.g. Grandori, 2004). Thus, this research stream currently provides a deep, but narrow, perspective. In contrast, I examine the relationships among key institutions, and develop a framework that can be applied to any combination of national settings, allowing a broader perspective than is usually possible.

1.1. Research Questions

My dissertation is guided by the following research questions:

- 1) Does managerial discretion differ across countries?
- 2) What are the reasons for cross-national differences in discretion?
- 3) What are some of the major consequences of these differences?

1.2. Dissertation Overview

This dissertation is an examination of the antecedents, nature, and consequences of cross-national differences in managerial discretion, focusing specifically on the discretion of chief executive officers (CEOs) of public firms. Managerial discretion may be defined as latitude of

managerial action (Hambrick & Finkelstein, 1987) and refers to the impact that senior executives have on the actions and outcomes of their firms.

In Chapter 2, I review the current literature on managerial discretion. This section includes a discussion of the two historic polar perspectives on discretion (agency versus determinism), relevant philosophical and psychological correlates, empirical attempts to resolve the debate, the development of the discretion construct itself, its subsequent use in organizational research, and a synthesis and critique of this research. I conclude that, while managerial discretion is a robust construct, an important shortcoming of the current literature is that it fails to consider the possibility of national-level constraints and enablers of discretion. I then discuss existing research that suggests the construct of managerial discretion will generalize to the national level.

In Chapter 3, I present a theoretical analysis of the institutional antecedents of cross-national differences in managerial discretion. I theorize that variance in seven fundamental national-level institutions – three informal (norms concerning autonomous actions, unpredictable actions, and the role of leaders) and four formal (legal tradition, prevailing firm ownership structure, labor market flexibility, and political order) – will systematically alter the level of discretion available to CEOs in different countries. I also discuss the role of institutional enforcement mechanisms.

In each of Chapters 4, 5, and 6, I present theory, hypotheses, methodology, and results from analyses of some of the major expected consequences of cross-national differences in discretion. To test the hypotheses in these three chapters, I use a five-year sample of 827 large public firms from 23 different countries. I generate national-level managerial discretion scores

from the results of a questionnaire administered to a panel of academic experts in cross-national business.

In Chapter 4, I argue that CEOs operating in high-discretion environments will have a greater impact on firm performance variance, or a greater “CEO effect.” I find evidence to support this prediction. In Chapter 5, I explore the idea that the essential nature of the CEO role will be different in high-discretion versus low-discretion societies. Accordingly, I argue that, compared to CEOs in low-discretion societies, CEOs operating in high-discretion societies will: 1) enter office at younger ages, and 2) display greater heterogeneity in entry age, exit age, and tenure. I find evidence that high-discretion CEOs do indeed tend to enter office at earlier ages. Also, CEOs from high-discretion environments display significantly greater heterogeneity in entry and exit age, but not in tenure. In Chapter 6, I argue that CEOs operating in high-discretion national environments will be significantly more likely to depart following poor firm performance than their counterparts in low-discretion environments. I find moderate-to-strong evidence supporting this prediction.

In Chapter 7, I examine the moderating impact of firm-level internationalization on the direct effects discussed in Chapters 4-6. My central argument in this chapter is that firm-level internationalization will weaken the impact of national-level managerial discretion. I find very little support for this prediction.

In Chapter 8, I present an exploratory analysis of how the phenomena discussed in this dissertation may have changed over time. I examine each of the main effects from Chapters 4, 5, and 6 using a 15-year sample of 256 firms from Germany, Japan, and the United States. I find some evidence that the impact of national-level discretion may have increased over time.

In Chapter 9, I discuss the results and implications of this dissertation, identify several limitations, and suggest a number of avenues for future research.

Chapter 2

LITERATURE REVIEW

2.1. Two Polar Views of Executive Influence

Do CEOs matter? Initially, such a question may seem faintly ludicrous. A recent ranking of the “top 50” undergraduate business schools in the U.S. showed that, in these fifty schools alone, approximately 100,000 students were classified as business majors, with yearly fees of up to \$36,000 (Lavelle, 2006). Add to that the tens of thousands of students enrolled in graduate business education at these same universities, most of whom are paying far greater sums, as well as students attending other colleges, in other countries, and at other times, and the scope of the worldwide business school education system begins to emerge. In addition, there is the vast, and growing, non-university business education industry. From books to seminars to consultants to week-long, direction-generating retreats, individuals and organizations spend billions in an attempt to gain the knowledge that will, ostensibly, translate to the bottom line of their companies. Surely if executives or managers don’t matter, this whole industry must be largely a waste of time and money. Even harder to overlook, chief executive officers of large public companies regularly receive tens of millions of dollars in yearly compensation. The top CEOs are far better paid than the top sports stars, whose contribution to their own earnings is largely unarguable. If executives don’t matter, how can they possibly make so much money?

But a number of theorists and researchers have indeed argued that CEOs do not matter much. Research programs grounded in a number of more deterministic perspectives, such as contingency theory (Lawrence & Lorsch, 1967), population ecology (Hannan & Freeman, 1977), bureaucratic limitations (Blau & Scott, 1962), resource dependence (Pfeffer & Salancik, 1978),

and neoinstitutionalism (DiMaggio & Powell, 1983), provide evidence that fundamental, inexorable forces – inertia, isomorphism, environmental dependence, or simple random chance – heavily constrain the behavior of given individuals and firms. Thus, some researchers defensibly attribute little or no opportunity for managers and executives, even charismatic, powerful, highly-paid ones, to place their own distinctive marks on their firms.

2.1.1. Summary of the Organizational Basis of the Debate

In the field of strategic management, this issue has usually manifested itself in a basic (typically unstated) assumption concerning the ability of executives to make and implement idiosyncratic strategic decisions. Most authors, both managerial and academic, simply assume that executives and managers matter. For example, Andrews's (1971) classic management treatise heavily emphasizes the substantive nature of the CEO role. In his first chapter, Andrews argues that the general manager (CEO) is: a) responsible for the effectiveness and efficiency of the firm's day-to-day operations, and b) is judged on firm-level economic results. Further emphasizing individual agency, Andrews asserts that the first task of a general manager is to identify company goals and purpose.

Similar perspectives can be found in other foundational works in the strategic management canon. Barnard's (1938) discussion of the functions of the executive is explicit in terms of the functions themselves – serving as channels of communication, coordinating, maintaining co-operation, hiring, promoting, firing, and formulating aims and goals – but silent regarding when the executive may have greater or lesser influence to carry out those functions. Chandler (1962) probably comes closest to identifying determinism, with his contingency arguments concerning the necessity of a multi-divisional structure in a strategically diversified

firm. However, Chandler remains clear in his view on both the primacy of strategy and the agency of senior executives in selecting that strategy.

In more recent times, the stream of research known as upper echelons theory (Hambrick & Mason, 1984) has dealt most explicitly with the issue of executive influence. The upper echelons perspective holds that the firm is a reflection of its top managers. Senior executives take actions – based at least in part on their backgrounds, beliefs, and values – which then differentially affect their firms’ outcomes (e.g. Boeker, 1997; Gupta & Govindarajan, 1984; Miller & Shamsie, 2001; see Carpenter, Geletkanycz, & Sanders, 2004, for a review). Building on Child’s (1972) “strategic choice” perspective, this research stream suggests that, while intra-firm, intra-industry, and intra-environment socialization does indeed occur, the impact of such socialization continues to be mediated by the nature of individual executives.

In contrast, theoretical and empirical contributions largely within the domain of organization theory point to the constraints, often subtle, within which individuals and organizations are required to operate. For example, resource dependence theory (Pfeffer & Salancik, 1978) suggests that an organization’s success will be inversely proportional to its dependence on its environment. In a study examining the pattern of inter-firm market ties, Baker (1990) finds support for the view that resources accrue to those firms with dependence-reducing ties. Offering even less opportunity for agency, population ecology theory in its original form (Hannan & Freeman, 1977) holds that success is essentially random from the perspective of the organization, and depends on the extent to which the organizational form, or blueprint, matches environmental requirements. Consistent with this view, Delacroix and Carroll (1983) found evidence that long-run newspaper founding rates were most strongly a function of the internal population dynamics of the newspaper industry itself. Across a number of different theoretical

perspectives, then, researchers have argued, and found support, for a view of organizations that privileges external factors over individual agency.

Somewhat paradoxically, research focusing on the individual to the complete exclusion of context can also result in a deterministic view. While perspectives such as resource dependence present an externally-driven imperative, constraining the latitude of individual managers, perspectives based on neoclassical economics present an internally-driven imperative. In the most extreme form, economic man is rational, possesses complete information, and has an unambiguously wealth-maximizing utility function. Even with weaker assumptions, such as in agency theory (based on neoclassical economics), executives are viewed as being driven by the nature of their contracts with the firm (Eisenhardt, 1989). Write a complete contract, and the individual will pursue profit-maximizing actions. Thus, even though pure *Homo economicus* is largely a straw man, it is worth noting that constraints on an individual's latitude of action do not necessarily have to arise from context.

As a brief aside, several authors have added a further nuance to the notion of agency versus constraint in organizational functioning, that of reciprocal causality. Perspectives such as enactment (Weick, 1979) and structuration (Giddens, 1984) argue that individual actions enact the actor's environment which then influences subsequent actions. Although empirical research addressing enactment and structuration is understandably scarce, these perspectives have relevance to any discussion of managerial discretion as they suggest that future constraints may exist, but that they may be partly due to present (discretionary) actions.

2.1.2. Attempts to Find an Empirical Resolution

A stream of research has endeavored to address this debate empirically, by estimating the proportion of variance in firm performance that can be attributed to major non-executive factors – typically year, industry, and company – and contrasting this with variance attributable to CEOs. Offering the first empirical test of the competing “great-man” (Barnard, 1938; Drucker, 1954) and bureaucratic limitation (Blau & Scott, 1962) theories of leadership, Lieberman & O’Connor (1972) sought to determine the amount of variance in organizational performance that could be attributable to organizational leaders. This study applied a variance decomposition methodology to 167 U.S. firms, in 13 industries, over a twenty-year (1946-1965) period. The authors investigated the impact of year, industry, company, and then leadership effects on three accounting-based performance variables: sales, net earnings, and profit margin (net earnings/sales).

As expected, the results showed some variation across industries but there was a generally consistent, small overall leadership effect for each of the three performance variables. Profit margin was the most heavily influenced dependent variable, with leadership explaining 14.5% of variance. While Lieberman & O’Connor’s work may be criticized somewhat on methodological grounds, e.g. the use of only accounting-based measures and the conflation of CEOs and chairmen, these concerns do not substantively detract from the study’s usefulness in its initial answer to the question of whether CEOs matter.

Subsequent empirical studies produced varied, but directionally consistent, results. Weiner (1978) also employed a variance decomposition methodology, this time with 193 U.S. manufacturing companies over a 19-year period (1956-1974). Results were less positive than Lieberman & O’Connor’s, indicating that leadership accounted for only 9% of variance in profit

margin. Weiner and Mahoney (1981) found that leadership explained 13% of profit margin variance, while a study of 12 U.K. retailing firms (Thomas, 1988) found that leadership explained only 6% of profit margin variance.

Wasserman, Nohria, and Anand (2001) provide a more recent investigation of the same phenomenon. Their study looked at 531 U.S. firms, from 42 industries, over a 19 year-period (1979-1997). While the variance decomposition model employed similar independent variables to earlier work (year-industry-company-leader), the authors used different dependent variables: return on assets and Tobin's Q (market value divided by asset value). After accounting for year, industry, and company effects, results revealed leadership effects of 14.7% and 13.5%, for ROA and Tobin's Q variance respectively. Similar to Lieberman & O'Connor's (1972) earlier results, the authors found considerable variance in leader effects across industries.

These empirical results provide some resolution to the question of whether CEOs matter, but are inconclusive for several reasons. First, it remains unclear exactly what each of these values mean. One could reasonably argue that a 25% effect is substantial, but what about a 10% effect? Does a 5% effect mean that CEOs don't matter? For example, a recent study using a more restrictive methodology (Bertrand & Schoar, 2003) found that the entire top management team (TMT) effect on R&D spending variance was approximately 5%. Do TMTs then matter? Second, a possibly even larger concern is that results appear to vary substantially depending on the sample, outcome variable, and analytic technique used. There is evidence that as little as 2% (Bertrand & Schoar, 2003), and as much as 32% (Lieberman & O'Connor, 1972) of profit margin variance may be attributable to leadership effects. Any stream of research revealing such a disparity in effects must be treated with caution. Logically, there are unidentified moderating variables at work that have yet to be incorporated.

2.2. Managerial Discretion

Building on this concern, an alternative stream of research has asked not *whether* managers matter, but *when*. Building on work by Child (1972), Montanari (1978), and others, Hambrick and Finkelstein (1987) introduced the notion of managerial discretion as a means of evaluating the degree of influence that executives might have, given a range of unique internal and external factors. Managerial discretion, defined as *latitude of managerial action*, was theorized to be a function of three distinct factors (p379):

(1) the degree to which the environment allows variety and change, (2) the degree to which the organization itself is amenable to an array of possible actions and empowers the chief executive to formulate and execute those actions, and (3) the degree to which the chief executive personally is able to envision or create multiple courses of action.

Thus, discretion was depicted as being a function of managerial characteristics (aspiration level, commitment, tolerance for ambiguity, cognitive complexity, internal locus of control, power base, and political acumen), internal organization factors (inertial forces, resource availability, and powerful inside forces), and the task environment (product differentiability, market growth, industry structure, demand instability, quasi-legal constraints, and powerful outside forces).

More specifically, Hambrick and Finkelstein (1987: 378) argued that, “a chief executive who is aware of multiple courses of action that lie within the zone of acceptance of powerful parties is said to have discretion.” Executives vary widely in the number of substantive and symbolic domains within which they possess discretion. Constraint (the opposite of discretion) exists when an action lies outside the zone of acceptance of powerful organizational stakeholders, and is a function of: 1) the perceived radicality of an action, and 2) the relative power of those who perceive the action as radical. Hambrick and Finkelstein (1987: 382) also emphasized the important distinction between mere choices, which are “cognitive endeavors”

and thus far more plentiful, and actions, where decisions are actually carried out. Executives can generally make any decision they wish, but it is only in the attempt to carry out a decision that discretion matters. In the two decades since Hambrick and Finkelstein's article, considerable research has employed the construct of discretion to explore the antecedents, nature, and consequences of managerial influence.

2.2.1. Discretion as a Moderator of Upper Echelons Research

One of the most important characteristics of managerial discretion is that it acts as a fundamental moderator of upper echelons theory (Hambrick & Mason, 1984). As briefly discussed above, the upper echelons perspective holds that senior executives take actions based on their own cognitive interpretations of events, which are shaped by their experiences, beliefs, and values. These actions then affect firm-level outcomes, both strategic and performance-based. Thus, there is a link between executives' cognitions (often proxied by demographic characteristics (Wiersema & Bantel, 1992)) and firm-level outcomes. If an executive has a great deal of latitude in terms of the strategic choices available, then the eventual firm actions and outcomes will more closely reflect the executive's cognitions. On the other hand, if an executive is highly constrained in terms of the actions available to him or her, then the firm will tend to adopt a particular strategy irrespective of whoever is nominally in charge. Thus, the executive's idiosyncratic cognitive interpretation will have far less explanatory power (Hambrick, 2007).

For example, operationally defining discretion in terms of industry (the computer, chemical, and natural gas industries were selected as high, moderate, and low discretion environments respectively), Finkelstein and Hambrick (1990) found that the relationship between TMT tenure and strategic persistence was positively moderated by discretion. In other

words, a long-tenured TMT was significantly more likely to be associated with strategic persistence in a high-discretion than in a low-discretion environment. Similarly, Hambrick, Geletkanycz, and Fredrickson (1993) showed that the positive relationship between a firm's performance and the firm's commitment to the status quo was stronger in high-discretion than low-discretion industries. Again focusing on industry-based discretion proxies, Halebian and Finkelstein (1993) found that the relationships between TMT size and performance, and between CEO dominance and performance were significant in high-discretion (computer industry), but not low-discretion (natural gas industry), environments.

More recently, Forbes (2005) argued that small new ventures create a high-discretion environment (similar to Mischel's (1977) "weak situation"), and, hence, a tighter link between managerial characteristics and firm behavior. Finally, conceptualizing discretion in terms of slack resources, Mone, McKinley, and Barker (1998) argued that the more high-discretion (uncommitted) resources there are in a company, the more positive the relationship between organizational decline and innovation. In each of these studies, the high-discretion environment was associated with a tighter link between executives' characteristics and firm-level phenomena than occurred in the low-discretion environment, supporting the view of discretion as a fundamental moderator of upper echelons theory.

2.2.2. Discretion and Executive Compensation

Probably the most widely studied outcome of discretion in organizational science research is executive, especially CEO, compensation. Finkelstein and Hambrick (1988) theorized that a CEO's marginal product (of which discretion is a necessary but not sufficient condition) would be associated with his or her compensation levels and mix. Supporting this

contention, Finkelstein & Boyd (1998) found that managerial discretion was indeed positively associated with CEO compensation and that there was a contingency relationship between discretion, compensation, and performance. Using slightly different terminology, Carpenter and Wade (2002) argued that non-CEO executive compensation was related to “microlevel opportunity structures” (which incorporate discretion). Further strengthening this finding, additional studies have found that firms with more discretionary orientations (prospectors) and firms in more discretionary environments (deregulated time periods) compensated their senior executives more highly and used a higher proportion of outcome-based pay (Rajagopalan, 1997; Rajagopalan and Finkelstein, 1992). Finally, using a single industry sample, Magnan and St-Onge (1997) found that the relationship between firm performance and executive compensation was stronger in high-discretion (wholesale, international banking) than low-discretion (retail, domestic banking) situations.

2.2.3. Discretion and Perceived Discretion

In contrast to the majority of research described above, which focuses solely on discretion as an objective characteristic of the environment (e.g. high-discretion versus low-discretion industries), some studies have also begun to investigate whether and how discretion itself is perceived. Several authors have in fact argued that discretion can only exist to the extent that it is perceived. For example, Javidan (1984) found that a CEO’s interpretation of environmental uncertainty influenced how likely they were to engage in long-term planning (and, therefore, the degree of discretion that they perceived). Grinyer, Al-Bazzaz, and Yasi-Ardekani (1986) also viewed strategic planning as a proxy for discretion, finding that firms with more vulnerable (inflexible) core technologies were more likely to engage in long-term planning.

Relatedly, Carpenter and Golden (1997) found that discretion was not simply an objective environmental characteristic, but depended upon a CEO's internal locus of control. These authors also found that perceived discretion was more strongly associated with managerial power in low-discretion settings. Intriguingly, there is also some initial evidence to suggest that an unfounded assumption of discretion may in fact be harmful to performance. Building on psychological research into self-serving attributions, Clapham and Schwenk (1991) found that low-discretion firms run by more self-serving CEOs (taking credit for positive outcomes and attributing negative outcomes to environmental conditions) tended to perform worse subsequently. This suggests that not only does discretion awareness vary, but performance may be related to an accurate perception of discretion.

2.2.4. Other Antecedents and Consequences of Discretion

Other research in the area of managerial discretion can be more broadly categorized as exploring the various antecedents and consequences of discretion. In terms of antecedents, a number of studies have identified the role that industry regulations play in limiting discretion (e.g. Lenz, 1981). Discussing the role of government, Kim and Prescott (2005) argued that government regulation in an industry provides a substitute for internal firm governance mechanisms, and thus reduces senior decision-makers' latitude of action. These authors suggest that industry-level discretion is largely a function of the breadth and depth of industry deregulation. Similarly, Spencer, Murtha, and Lenway (2005) posited that the nature of government incentives to participate in emerging industries may constrain discretion. In addition, Makhija and Stewart (2002) identified that the institutional environment in general will influence an executive's perception of decision risk.

A number of other consequences of discretion have been discussed also. Abrahamson and Hambrick (1997) found that letters to shareholders from firms in low discretion industries were characterized by greater “attentional homogeneity.” Extending the discussion beyond top executives, Forbes (1999) argued that in high-discretion industries, company boards may also have a greater influence on firm performance. Finally, although they did not refer to it as such, Rajagopalan and Datta (1996) used most of the key indicators of discretion (industry concentration, capital intensity, product differentiation, industry growth, and demand instability) in their analysis of industry-level sources of CEO characteristics. These authors found some support for their hypotheses that “discretion” was positively associated with CEO education levels, CEO functional heterogeneity, and negatively associated with CEO tenure and 'throughput' functional orientation (e.g. production, accounting).

2.2.5. Latitude of Actions versus Latitude of Objectives

In addition to the more behaviorally-oriented discretion research discussed above, a stream of research grounded more in economics and finance utilizes the concept of discretion as it pertains to agency theory (cf. Jensen & Meckling, 1976) and managerial capitalism (Marris, 1964; Misangyi, 2002). Authors within this stream of research tend to work from the premise that firm rents are a combined function of heterogeneous resource allocation across firms (rent-enhancing) and discretionary decisions by top managers (rent-inhibiting) (Amit & Schoemaker, 1993; Levinthal & Myatt, 1994). Specifically, building on Williamson’s (1963) foundational work, this research stream explores firm-level structural factors that facilitate or inhibit the capacity of executives to expropriate shareholder wealth, as well as the consequences of such wealth expropriation. While managerial discussions of discretion are generally value-neutral, i.e.

discretion is a characteristic of the environment, and is not necessarily good or bad for the firm, this agency-based literature tends to assume that greater discretion is a problem for the firm as it allows managers to expropriate wealth from shareholders (e.g. Dharwadkar, George, & Brandes, 2000; Gedajlovic & Shapiro, 2002; Wright, Kroll, & Elenkov, 2002). For example, several studies have shown that bank debt covenants are associated with a restriction in cash flow and, thus, a reduction in agency problems arising via managerial discretion (Fox & Marcus, 1992; Phan & Hill, 1995). Similarly, higher levels of firm ownership concentration have been argued to reduce managerial consumption of perquisites via greater shareholder voting power (Boeker, 1992; Hill & Snell, 1989).

More recent research has attempted to reconcile this stream of managerial discretion research with that initiated by Hambrick and Finkelstein (1987). Shen and Cho (2005) contrasted the degree to which a manager is free to pursue personal objectives (Williamson, 1963), or “latitude of objectives,” with the degree to which a manager has influence over firm outcomes (Hambrick & Finkelstein, 1987), or “latitude of actions”. Using the example of involuntary executive turnover, Shen and Cho (2005) depict latitude of actions and latitude of objectives as orthogonal. By illustrating the distinctions and differing assumptions between different approaches to managerial discretion, Shen and Cho (2005) contribute to a deeper understanding of this construct. In considering these distinctions, though, it is important to not lose sight of the underlying parallels between these two research streams.

Both behavioral (Hambrick & Finkelstein, 1987) and economic (Williamson, 1963) approaches to discretion are concerned with whether, when, how, and why executives are able to undertake idiosyncratic firm-level decisions free of interference. Whether a given executive decides to use his or her influence in pursuit of profit-maximization, utility-maximization, or

merely in a capricious or random manner, remains an empirical question. More importantly, it remains a question of the consequences of discretion, rather than of discretion itself. Thus, although this dissertation will build more on work within the behavioral than within the economic discretion domain, I argue that it incorporates insights from both perspectives and that its results will be applicable to both perspectives.

2.2.6. Investment Opportunity Set

One final research domain of particular relevance to managerial discretion research concerns a firm's "investment opportunity set", which may be defined as the entirety of choices available to an individual or firm (Smith & Watts, 1992). Although this stream of research in financial economics rarely references the managerial discretion literature (and, indeed, vice versa), both streams appear to be addressing a related phenomenon. For example, Hubbard and Palia (1995) found that both the magnitude of total executive compensation and the proportion of performance-based compensation increased in a sample of firms that recently underwent deregulation. These authors argued that executives of the deregulated firms had a wider opportunity set available to them; therefore, more talented managers were required, which in turn resulted in higher levels of compensation. Recent studies within accounting and finance have explored the impact of an executive's opportunity set on a range of firm-level factors, including information disclosure (Hossain, Ahmed, & Godfrey, 2005), capital structure (Ho, Lam, & Sami, 2002), and the level of corporate cash holdings (Ferreira & Vilela, 2004). In addition, a recent article in the management field has linked the notion of the investment opportunity set with managerial discretion in an attempt to predict the outcome of different types of industry deregulation (Kim & Prescott, 2005).

2.2.7. Summary and Critique

Befitting its broad philosophical and psychological underpinnings, research into managerial discretion continues to grow in popularity and relevance. Having summarized existing research in this area, we can now identify what has been learned and what still remains to be understood.

2.2.7.1. Measurement

In terms of measurement, the simplest approach has been to operationalize discretion in terms of the environment, specifically the nature of the industry (e.g. Halebian and Finkelstein (1993) used the computer industry as a high discretion environment and the natural gas industry as a low discretion environment). Most research within the “investment opportunity set” stream also operates at the industry level, but uses the period before deregulation as a low-discretion (or low-opportunity) context, while the period after deregulation is used as the high-discretion context (e.g. Hubbard & Palia, 1995; see also Cho & Hambrick, 2006). A more nuanced approach again employs the industry level of analysis but measures the level of discretion using a number of proxy variables, including R&D intensity, advertising intensity, capital intensity, and market growth (e.g. Hambrick & Abrahamson, 1995). A final method used to measure discretion at the industry level is through the use of several expert panels, consisting of academics and security analysts (Hambrick & Abrahamson, 1995). A large majority of research in this domain, particularly those studies explicitly building on the work of Hambrick and Finkelstein (1987) has used an industry level of analysis.

Some studies have instead measured discretion at the level of the firm. One method has been to use a firm’s strategic posture as a proxy for the discretion available to its senior

executives. For example, Rajagopalan and Finkelstein (1992) treated “prospector” firms (Miles & Snow, 1978) as high-discretion and “defender” firms as low-discretion. An alternative approach has been to directly measure a number of firm-level variables that are expected to reflect discretion, e.g. R&D intensity and advertising intensity (Finkelstein & Boyd, 1998). In a similar vein, most managerial discretion research based on Williamson’s (1963) work tends to use the firm level of analysis. A commonly used measure is a firm’s ownership structure, such as whether a firm is owner-controlled or manager-controlled (Tosi & Gomez-Mejia, 1989), or the level of shareholder ownership concentration (Gedajlovic & Shapiro, 1998). Also often used as a measure of discretion is the prevalence and restrictiveness of debt covenants or other cash flow-reducing devices (e.g. Fox & Marcus, 1992; Phan & Hill, 1995).

In contrast to studies focusing on industry- or firm-level measures of discretion, one study has adopted an explicitly individual-level focus (Carpenter & Golden, 1997). This study asked executives via survey about the level of discretion that they perceived.

2.2.7.2. Contributions

Whether addressed from a behavioral or an economic perspective, evidence supports the claim that the construct of managerial discretion is becoming increasingly robust. Two studies in particular have addressed the construct validity of discretion. First, Hambrick and Abrahamson (1995) found that academic ratings of discretion in different industries tallied with security analysts' ratings, which also tallied with objective characteristics of those industries (R&D intensity, advertising intensity, capital intensity, and market growth). Second, Boyd and Salamin (2001) provided evidence of generalizability beyond US settings, through their analysis of discretion in a sample of Swiss banks. They further argued that, due to the range and

multiplicity of methods with which managerial discretion has been examined (individual, organizational, environmental, survey, expert panel, observational) the discretion construct is robust. In addition to these positive features of managerial discretion, however, this research stream continues to have several important shortcomings.

2.2.7.3. Opportunities for Future Research

First, there is little or no comprehensive research on the individual-level antecedents of discretion (Hendry, 2002). Of the seven individual-level antecedents theorized by Hambrick and Finkelstein (1987), only internal locus of control (Carpenter & Golden, 1997) has been explicitly examined. This failure to focus on individual-level antecedents has resulted not only in an incomplete understanding of discretion, but (somewhat paradoxically) in a slightly more deterministic construct than its instigators might be comfortable with. For example, following findings by Finkelstein and Boyd (1998), discretion has been operationalized as a control variable simply by measuring a firm's level of capital intensity (Geletkanycz, Boyd, & Finkelstein, 2001). While this is an understandably expeditious way to reflect discretion, it incorporates individual agency (the seeming heart of the construct) only tangentially.

Second, and relatedly, little research has integrated executives' perceptions of discretion with robust external indicators of the construct. Apart from the single study by Clapham and Schwenk (1991) discussed above, no work has investigated variance in perceptions of discretion or how discretion perceptions and more objective discretion indicators relate to subsequent firm performance. Such a shortcoming leaves research in this stream open to much of Priem and Harrison's (1994) critique of strategic decision-making research. These authors argued that a fundamental, yet rarely-tested, assumption in strategic judgment and strategic decision-making

research is that strategic choice can be inferred by strategic decisions (i.e. researchers assume that because a strategic action unfolds, the action was consciously selected). Whether such an assumption is feasible, heroic, or somewhere in between, can best be determined through an integration of individual and external measures of discretion, including agentic perceptions of discretion.

Third, and most relevant for my project, current discretion research reflects an excessively narrow view of the task environment. While research has repeatedly explored industry-level (Hambrick & Abrahamson, 1995) manifestations of environmental discretion, such an operationalization, while valid, omits consideration of a potentially crucial source of macro-economic variance. Systematic differences in the national environments within which firms operate are likely to have differential effects on the level of discretion available to executives from one country versus another. Although potential associations between leadership and cultural factors are beginning to be explored (e.g. House, Hanges, Javidan, Dorfman, & Gupta, 2004), little or no work has considered the relationship between a circumscribed domain of leadership – that of executive leadership discretion within public corporations – and multiple, inter-related national-level factors. An integrated consideration of multiple formal and informal institutions (of which culture is but one) can help begin to redress this dearth of research on macro-economic, national-level determinants of discretion.

2.3. Extending Managerial Discretion to the National Level

Any examination, theoretical or empirical, of cross-national differences in managerial discretion begs a fundamental question: Can we legitimately discuss discretion at the national level at all? Is discretion sufficiently universal that there will be a reasonable (if perhaps

implicit) understanding of the construct across a range of national settings? This issue must be addressed prior to any discussion of whether there actually is systematic variance in discretion across countries. One reason for possible concern is that, similar to much of the research in strategic management, managerial discretion research has a strong U.S. (and, more broadly, Western) orientation¹. Will, therefore, organizational stakeholders from countries “culturally distant” (cf. Shenkar, 2001) from the U.S. recognize and appreciate the notion of managerial discretion? In a collectivistic society, e.g. Japan (Hofstede, 2001), is it even relevant to discuss the latitude of (individual) action? I argue that it is. Long-standing, well-established research streams from fields outside the domain of organization science strongly suggest that the dual notions of latitude of action and its obverse, constraint, will indeed be appreciated and understood across a wide range of cultural contexts.

2.3.1. Philosophical Underpinnings

Although the agency versus constraint debate is a relatively recent one in the field of organization science, strong echoes of this argument can be found in the annals of some of the most basic of all fields of knowledge, philosophy and theology. Beyond the narrow questions of whether managers, executives, or CEOs possess discretion, a broader question concerns whether individuals in general are free to choose their actions, a debate within philosophy regarding free will versus determinism.

Free will is the view that individuals are able to freely choose all their own actions, while determinism is the view that all actions are the inevitable result of prior states of affairs (Kane, 2002). Contributions to this stream of philosophical thought have been made throughout the

¹ “Economic” discretion research is perhaps even more culturally contingent, as it explicitly assumes that the fundamental goal of a firm is to maximize shareholder wealth, an assumption that varies considerably in its pervasiveness across different countries (Hall & Soskice, 2001).

ages. Early Greek philosophers largely held to the belief that there must be free will, as otherwise there could be no right or wrong and no morality (Dennett, 1984: 1). Plato, however, adopted a more deterministic perspective, arguing that, as individuals would always choose a better action over a worse action, seemingly free decisions are themselves always determined by an individual's understanding of what is good and right (O'Brien, 1958). In the Middle Ages, a more explicitly theological perspective emerged, although both sides of the debate were again represented. Early Protestant thinkers, including Martin Luther and John Calvin, argued that God's omniscience implied not only determinism, but predestination (Wallace, 1986). In contrast, Thomas Aquinas argued that free will exists in the choice between sin and good works.

Non-Western philosophical traditions have also addressed the notion of free will versus determinism. Dependent Origination, a Buddhist teaching, holds that each phenomenon is dependent upon the phenomena that it is not, implying determinism. At the same time, however, the Buddhist notion of karma suggests a more agentic perspective (Nauriyal, Drummond, & Lal, 2006). Karma, in Buddhism, is an intentional action. As every karmic action bears karmic fruit, karma, or agency, must direct the universe. Befitting such a long-standing debate, dissensus is considerable, conclusions are few, and nuances abound (Slote, 1982). Definitions of free will vary, as do perspectives on the relevance of perceived versus actual free will (van Inwagen, 1989). However, what is abundantly clear from this stream of research is that the notions of free will and determinism (or their organizational equivalents, agency and constraint) are relevant across both time and place, and are thus relevant to diverse national contexts.

2.3.2. Psychological Correlates

Echoes of this debate can also be heard in a broad stream of literature within psychology and cognition. Perhaps unsurprisingly, just as there are proponents for both free will and deterministic viewpoints, there exist psychological traits that suggest individuals vary on the degree to which they feel themselves to be in control of events. Of probably greatest relevance is the trait of locus of control. Originally identified by Rotter in the 1950s, an individual's locus of control concerns their degree of perceived responsibility for the outcome of events. An internal locus of control suggests a feeling of control over future behavior and outcomes, while an external locus of control suggests a greater role for environmental and situational factors, including luck (Lefcourt, 1982). Associated psychological constructs, including attribution, self-efficacy, core self-evaluation, and perhaps even risk-taking propensity or self-esteem, all appear to reflect – at least in part – the degree to which individuals believe in human agency.

2.3.3. Discretion in Non-corporate Fields.

Further evidence supporting the cross-national applicability of managerial discretion comes from work in other non-corporate domains. Studies from professional fields such as medicine and law suggest that practitioners' latitudes of action vary cross-nationally in these settings also. For example, studies have examined how normative influences on interactions between medical practitioners and patients differ cross-nationally, and, thus, how medicine is practiced differently across countries (Bennett, Smith, & Irwin, 1999; Kimmelmeier, Wiczorkowska, Erb, & Burnstein, 2002; Kim, Smith, & Yueguo, 1999). For example, in more collectivistic societies (e.g. China), medical decision making is expected to be more consensus-based and incorporate greater patient participation. Thus, medical professionals practicing in

more individualistic societies may be argued to have greater discretion. Similarly, studies have examined how legal systems differ cross-nationally and how legal professionals are faced with different challenges and opportunities according to statutory and contractual differences (Kagan, 1994, 1997; Whelan & McBarnet, 1992). For example, lawyers operating in countries with a common law legal tradition (e.g. U.K.) tend to have greater autonomy than their counterparts in civil law countries (e.g. Germany), due to the broader range of property rights that are protectable under common law systems. Thus, it could be argued that common law legal professionals will tend to have greater discretion in terms of the grounds for legal proceedings and the magnitude of legal action. So, while much more work needs to be undertaken before it is possible to assert that “professional” discretion mirrors that of managerial discretion, these studies do provide initial evidence that individuals in non-corporate settings may also experience systematic differences in their latitudes of action across different national environments.

In sum, I argue that managerial discretion, which has been examined almost entirely at the firm-, and industry-levels, and within single national contexts, can be fruitfully extended to the national level. Evidence from a long-standing, pan-cultural stream of philosophical thought concerning free will versus determinism, and from studies suggesting variance in non-corporate professionals’ latitudes of action, provides support for the view that managerial discretion is sufficiently universal. We are now left with the questions of whether, why, and how discretion actually does vary across countries. I offer an initial answer to these questions in Chapter 3.

Chapter 3

NATIONAL INSTITUTIONS AND MANAGERIAL DISCRETION: A THEORETICAL ANALYSIS

Belying its somewhat peripheral position in the strategic management literature, institutional research has a long, rich history in the social sciences. Originating around the turn of the twentieth century in the fields of political science (Willoughby, 1896; Wilson, 1889), sociology (Durkheim, 1893; Weber, 1924), and economics (Veblen, 1909), institutional research may be viewed at least in part as a reaction to, and critique of, prevailing neoclassical economic theories favoring the universal over the particular and the abstract over the concrete (see Scott (2001) for a synopsis of the history of institutional research, and its application to organizational science). Institutional arguments focus on the importance of evaluating human behavior, not just in terms of simplifying assumptions such as utility maximization, but in terms of social beliefs, values, relations, structures, constraints, and expectations.

New institutional economics, perhaps the most widely studied sub-domain of institutional research, argues that the primary purpose of institutions is to reduce uncertainty (e.g. Coase, 1998; North, 1990: 25). Socio-economic interaction between individuals and organizations holds the potential for dizzying complexity, were it not for the supporting bedrock of procedure, precedent, and mutual expectation. Institutions provide this bedrock, thus reducing uncertainty. But if expectations provide guidelines, they also exercise constraint (Nelson & Nelson, 2002). Institutions may reduce uncertainty, but in doing so they simultaneously, necessarily, constrain behavior. Thus, individuals and organizations operating within a given institutional environment

are both facilitated (via uncertainty-reducing efficiency increases) and inhibited (via uncertainty-reducing choice reduction) at the same time.

Before going further, it is helpful to define precisely what is meant by an institution. Commensurate with the breadth of this research stream, the definition of an institution can vary somewhat across academic disciplines. Almost all definitions, though, depict institutions as resilient social structures. For example, Scott (2001: 49) defines institutions as, “multifaceted, durable social structures, made up of symbolic elements, social activities, and material resources.” For the purposes of this paper, I will adopt North’s (1991: 97) somewhat simpler, if broader, definition, “*Institutions are the humanly devised constraints that structure political, economic, and social interaction.*”

Institutions may be classified as either formal or informal. Formal institutions are explicit, codified, and statute-based. They consist of the political rules, economic rules, and contracts that govern property rights and transactions in a society (North, 1990: 47). A country’s form of government, constitution, and legal tradition are examples of fundamental formal institutions. In contrast, informal institutions are tacit, usually unwritten, and exist outside the legal system (Helmke & Levitsky, 2006). They consist of the conventions, codes of behavior, norms, mores, and values that shape interpersonal interaction in a society. Formal institutions are enforced by a third-party (the government), while informal institutions are enforced by members of society themselves. Informal institutions are inherently more nebulous than formal institutions and are more difficult to define and analyze. However, at the same time, informal institutions are arguably more primary, inertial, and deep-seated than formal institutions (Keefer & Knack, 2005).

3.1. Informal Institutions

Informal institutions may be defined as “*socially shared rules, usually unwritten, that are created, communicated, and enforced outside officially sanctioned channels*” (Helmke & Levitsky, 2006: 5). In every society – ancient and modern, primitive and advanced – individuals as a group have constrained their own behavior in order to provide structure to social interactions (Colson, 1974). Informal institutions affect key sociological processes within a society, including modes of information exchange, conflict-resolution mechanisms, and risk management (North, 1990: 39). These socially-shared rules have been examined from many perspectives, including social capital (Stiglitz, 2000), trust (Knack & Keefer, 1997), efficiency maximization (Posner, 1980), dispute resolution (Ellickson, 1986), and culture (DiMaggio, 1997).

Perhaps not surprisingly, there still exists some debate as to the precise boundaries of informal institutions, with justifiable criticism that authors often fail to define the scope of their investigations (Margolis, 1983). Furthermore, different streams of research focus on different effects of informal institutions. Political scientists, for instance, are mostly concerned with how informal institutions (e.g. corruption) can enhance or subvert formal political structures (Lauth, 2000), while economists have examined how informal institutions (e.g. trust) will affect transaction costs and, thus, will affect the level of economic growth in a society (Knack & Keefer, 1997).

How do informal institutions affect behavior? Via a problem-based process, built on bounded rationality, path-dependence, and learning. Individuals use rule-based mental models, or schema, to interpret and classify environmental stimuli (Walsh, 1995). These schemas serve a problem-solving function (Mantzavinos, North, & Shariq, 2001). Over time, within a society, particular responses (e.g. reciprocation) to particular actions (e.g. gift-giving) will be positively

reinforced, to the point where these practices become schematic. When faced with ambiguous environmental stimuli, individuals rely on mental models that have been reinforced to the greatest degree. Thus, social order emerges as a result of individuals, separately, observing social codes of behavior, respecting norms, and following societal rules (Mantzavinos, 2001: 131). These codes of behavior, or social norms, are powerful influencers of behavior. Miller (1999: 1056) goes so far as to define social norms as, “shared perceptions of appropriate behavior that possess the power to induce people to act publicly in ways that deviate from their private inclinations.”

How, then, does this play out in an organizational setting? A recent study by Geletkanycz (1997) illustrates how social norms, in this case cultural values, may be associated with cross-national differences in the appropriateness of a particular course of organizational action. Commitment to the *status quo* (CSQ) concerns how strongly an executive believes that a firm’s current strategies and profiles will be appropriate in the future (Hambrick, Geletkanycz, & Fredrickson, 1993). Geletkanycz (1997) found that CSQ differed in accordance with national cultural values. For example, a short-term oriented society is one where social norms promote a focus on the present and the past, with less consideration given to the future (Hofstede, 2001). Geletkanycz (1997) theorized that these norms would influence societal members in general, and corporate executives in particular, to over-value existing firm behavior and under-value possible alternative firm actions. This would then be associated with higher CSQ. The study’s results supported this hypothesis, providing evidence that executives from a particular country exhibit common perceptual tendencies, at least in part as a result of prevailing social norms.

Moving on from CSQ, how might social norms, or codes of practice within a society, affect managerial discretion? Recall that a given executive possesses discretion to the degree to

which his or her chosen actions fall within the “zone of acceptance” of powerful stakeholders (Hambrick & Finkelstein, 1987: 374). Constraint exists when an action falls outside this zone of acceptance. Hambrick and Finkelstein argued that constraint is a function of: 1) the perceived radicality of an action, and 2) the relative power of those who perceive the action to be radical. Of these two antecedents of constraint, informal institutions will most strongly affect the perceived radicality of an action.

What makes an action radical? An action will be perceived as radical to the extent that it contravenes accepted business practices and, more broadly, the extent to which the action contravenes social norms. Thus, the perception of an action’s radicality will be heavily related to prevailing informal institutions in a society. Different societies will have different norms and behavioral conventions, which will, in turn, lead to a similar action being attributed a different level of radicality cross-nationally. Thus, an action that might be considered relatively benign and incremental in one society may be perceived as threatening and quantum in another.

Although it is clearly impossible to examine every single social norm that might differentially affect the perceived radicality of an action, existing research strongly points toward those norms or values that will be most fundamental, most relevant, and most influential. I will discuss, in turn, how discretion will differ based on a society’s norms relating to: a) autonomous actions, b) unpredictable actions, and c) the role of leaders in general (see Figure 1). In each section, I will discuss why these social norms can be expected to have a pervasive and significant impact on managerial discretion, and why these norms are representative of the impact of informal institutions more generally.

Figure 1 about here

3.1.1. Norms Concerning Autonomous Actions.

Probably the most relevant of all informal institutions, as they pertain to discretion, is the social norm concerning autonomous vs. consensus-based actions. Specifically, executives in a society will experience discretion in proportion to the strength of norms promoting unilateral, idiosyncratic actions. Of the considerable body of work addressing national cultural values, one can argue that all major cultural typologies incorporate at least one value that reflects this tension between individual and collective action. Various referred to as individualism versus collectivism (Hofstede, 2001), integration (Chinese Culture Connection, 1987), autonomy versus conservatism (Schwartz, 1994), individualism versus communitarianism (Trompenaars & Hampden-Turner, 1998), in-group collectivism, and institutional collectivism (House, Hanges, Javidan, Dorfman, & Gupta, 2004), this value dimension has been identified by a number of authors as being arguably the most fundamental cultural value (e.g. Aguinis & Henle, 2003; Gelfand, Bharwuk, Nishii, & Bechtold, 2004; Triandis, 1994).

Societies characterized by individualistic values will provide broader zones of acceptance for senior executives. These societies will tend to permit and promote individual interests and will tolerate unilateral decision-making. CEOs, as particularly notable symbols of the empowered individual, will be given considerable leeway in deciding upon the preferred direction of their firms. This is not to say that executives will not be held accountable for their decisions – indeed, a highly individualistic society is probably more likely to attribute individual blame for corporate failure (cf. Krull et al., 1999) – simply that they will be given substantial opportunity to pursue their chosen agendas.

In contrast, CEOs operating in societies characterized by norms promoting consensus-based actions will tend to experience less discretion. Members of society, as well as firm

employees, middle managers, and executives, will have stronger expectations that important strategic decisions will be the outcome of a consultative process. While one could argue that such an interactive, consensus-oriented process will often result in qualitatively superior decisions, these decisions will nevertheless tend to take longer to agree upon and implement. Therefore, I argue that managerial discretion will vary cross-nationally in line with social norms concerning autonomous vs. consensus-based actions (see Table 1 for a summary of all propositions).

Proposition 1: The more that a society's norms promote autonomous actions, the greater the discretion available to CEOs of firms headquartered in that society.

Table 1 about here

3.1.2. Norms Concerning Unpredictable Actions.

Another informal institution that will affect the level of discretion accorded to corporate executives is the attitude of members of a society toward unpredictable actions. Some societies have a relatively high tolerance for radical, quantum actions, means-ends ambiguity, and uncertainty in general. Such societies tend to be less risk-averse and more tolerant of change. A number of cultural values typologies have identified a societal value that reflects this degree of comfort with the unknown. Values such as uncertainty avoidance (Hofstede, 2001; House et al., 2004) and conservatism (Schwartz, 1994) are reflections of the extent to which society accepts or shuns unpredictability.

Societies with greater tolerance for unpredictable actions, and the uncertainty associated with those actions, will provide broader zones of acceptance for executives and thus greater discretion. Such societies will permit senior executives to consider a wider range of choices, and

to implement a wider range of actions, when faced with strategic ambiguity or environmental upheaval (cf. Meyer, 1982). In addition, even in situations of relative stability and success, executives whose actions depart from past corporate behavior will be less likely to be inhibited and constrained by powerful stakeholders. Furthermore, a given action (e.g. substantially altering the scope of a business) may be perceived as less radical in these societies than it might be in societies with less tolerance for unpredictability.

Alternatively, in societies characterized by a low tolerance for unpredictability, executives will experience less discretion. These executives will be expected to take strategic actions that are consistent with past corporate behavior, that do not stray far from the central tendencies of the firm's industry and sector, that are relatively narrow in scope, that are more incremental than radical, and that reflect greater levels of risk-aversion. Equally qualified and experienced executives will be more inter-changeable, as their actions will tend to be similar in any given situation. Finally, even in response to considerable environmental upheaval or sustained poor corporate performance, executives in societies with low tolerance for unpredictability will still find it difficult to institute a radically different strategic direction. Therefore, I argue that managerial discretion will vary cross-nationally in line with social norms concerning tolerance for radical vs. incremental actions.

Proposition 2: The more that a society's norms promote unpredictable actions, the greater the discretion available to CEOs of firms headquartered in that society.

3.1.3. Norms Concerning the Role of Leaders.

A third fundamental informal institution concerns the relative status of leaders in a society. Recent evidence suggests that some elements of leadership are seen as universal (e.g. charismatic leadership is viewed positively across a wide range of countries (Den Hartog, House,

Hanges, Ruiz-Quintanilla, & Dorfman, 1999)). One element of leadership that does differ somewhat, though, is the relative status, and power, of leaders in different societies (House & Javidan, 2004). In societies where leadership itself is highly privileged, and individual leaders are accorded great power and responsibility, discretion will be higher.

Most cultural values typologies identify one or more values that reflect a society's tolerance for unequal power distributions (Carl, Gupta, & Javidan, 2004). Examples of these values are power distance (Hofstede, 2001; House et al., 2004), hierarchy (Schwartz, 1994), moral discipline (Chinese Culture Connection, 1987), and achievement-ascription (Trompenaars & Hampden-Turner, 1998). Although power distance, as typically identified in cultural values research, refers to acceptance of inequality in general and is thus broader than simply the power of executive leaders, this cultural value does provide a useful indication of the status of leadership.

Relatedly, seminal work by Meindl and colleagues (Chen & Meindl, 1991; Meindl & Ehrlich, 1987; Meindl, Ehrlich, & Dukerich, 1985) has examined the degree to which individuals attribute outcomes to leaders, finding that more extreme positive and negative outcomes are attributed to leadership rather than external factors, including luck. This relates to the "fundamental attribution error," which suggests that individuals consistently over-attribute events to human agency (Tetlock, 1985). Some research, though, suggests that the fundamental attribution error may not be so fundamental after all, and may instead be culturally-contingent (Harvey, Town, & Yarkin, 1981; Krull et al., 1999).

Thus, in societies where power distance is greater, where attributions about leaders are stronger, and where leadership itself is romanticized (e.g. Anglo-American countries (House, Wright, & Aditya, 1997)), firm stakeholders are more likely to allow radical strategic actions,

more likely to acquiesce in the face of personally painful firm actions, and less likely to question either the decision-maker or the basis upon which an action is taken. In societies where leadership is less prized, though (e.g. Scandinavian countries (House et al., 2004: 5)), unexpected strategic actions are far more likely to come under scrutiny. When a leader is seen more as a facilitator, and less as a unilateral decision-maker, that leader will experience greater normative pressure if a majority of the group disagrees with a particular action. Therefore, I argue that managerial discretion will differ cross-nationally in line with social norms concerning the role, status, and power of leaders.

Proposition 3: The more that a society's norms promote the role of leadership, the greater the discretion available to CEOs of firms headquartered in that society.

3.1.4. Enforcement of Informal Institutions.

I have argued that informal institutions are norm-based elements of society that will affect the level of discretion available to executives. The existence of norms alone is not sufficient, though; they must also be observed (Ingram & Clay, 2000). Whether and when individuals act in accordance with institutional constraints depends heavily on the enforcement characteristics of a society. One way to deal theoretically with the issue of enforcement is, of course, to ignore it. If institutions are assumed to be enforced perfectly, or even consistently imperfectly, there is no pressing need to consider enforcement mechanisms (see North's (1990: 54) critique of transaction cost economics literature). Strong evidence, though, suggests that the extent to which institutions are enforced does indeed vary, and it does so along national lines (e.g. Leuz, Nanda, & Wysocki, 2003; Modigliani & Perotti, 1997).

Enforcement may be defined as *the extent to which individuals' adherence to established societal norms and rules is monitored and compelled* (cf. Kandori, 1992). Mechanisms of social

norm enforcement are often subtle and complex, ranging from innocuous social gossip to open threats and hostility, perhaps extending even to extra-judicial violence (Knight and Ensminger, 1998). Also subtle are the factors that will affect the intensity of norm enforcement in a society. By definition, norms are self-enforcing (enforced by the members of society, rather than the state), but what determines the strength of that enforcement? In one sense, the socialization process resulting in social norms is itself a form of enforcement (Mantzavinos, North, & Shariq, 2001). For norms to exist there must be a widespread implicit acceptance of their appropriateness. This acceptance only arises after many interactions among many individuals in many situations, where norm adherence is consistently reinforced and norm transgressions are consistently sanctioned.

If a norm is transgressed in one society, though, what will cause the repercussions to be greater (or lesser) than those that would arise from a similar transgression in a different society? A particularly good indicator of this variance in norm enforcement is the construct of cultural tightness-looseness, defined as “the strength of social norms and the degree of sanctioning within societies” (Gelfand, Nishii, & Raver, 2006; see also Berry, 1967; Pelto, 1968; Triandis, 1989). Whereas most research into national culture deals with “means” (e.g. where a particular country sits on a continuum of, say, individualism versus collectivism), cultural tightness is a measure of “variance” (i.e. the breadth of the distribution of members of a society around a mean point). Thus, cultural tightness reflects, first, the extent to which social norms are shared within a society, and second, the extent to which norm transgression will lead to repercussions (Gelfand et al., 2006).

Societies characterized by stronger norm enforcement, represented by factors such as cultural tightness, will amplify the effect of informal institutions on discretion. As discussed

above, societies with relatively strong norms supporting autonomous actions, unpredictable actions, and the role of leaders will provide a high-discretion environment. If those societies also display strong informal norm enforcement characteristics, corporate executives will be given even more freedom to act in such ways and will have broader latitudes of action. Similarly, those societies characterized by social norms supporting consensus-based and incremental actions, and underplaying the role of leaders will provide a low-discretion environment. If those norms are strongly upheld, there will be even greater constraints on corporate leaders' latitudes of action. In contrast, societies with weak social norm enforcement, such as those with "loose" cultures, will have weaker links between informal institutions and managerial discretion (see Figure 1). Therefore, I argue that strong enforcement of informal norms in a society will lead to a tighter link between informal institutions and national-level managerial discretion.

Proposition 4: Strong informal norm enforcement in a society will amplify the effect of informal institutions on managerial discretion.

3.2. Formal Institutions

Formal institutions may be defined as, "*rules and procedures that are created, communicated, and enforced through channels widely accepted as official*" (Helmke & Levitsky, 2004: 727). One can imagine a hierarchy of formal institutions, from constitutions down to laws down to specific contracts, with each level of the hierarchy being progressively less stable and less costly to alter (North, 1990: 47). Probably due to their more explicit, quantifiable nature, formal institutions have been far more widely studied than their informal counterparts. Indeed, a number of researchers have expressed concerns with this almost exclusive focus on formal institutions (Lowndes, 1996). Similar to the case of informal institutions, different streams of research tend to adopt differing approaches to the study of

formal institutions. For example, legal scholars tend to focus on how national-level growth and development outcomes differ as a function of a country's legal tradition (e.g. La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1997), while sociologists are often more interested in how institutions contribute to structural isomorphism across firms within an organization field (e.g. DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Mezas, 1990).

How do formal institutions affect behavior? Similar to the case of informal institutions, formal institutions reduce uncertainty and occupy a problem-solving role. However, the process is far simpler, and relies on the central role of the state. Unlike other organizational stakeholders, the state has the power of legitimate coercion (Lindblom, 1977; see also Scott, 2001: 126-129). From an economic perspective, the state protects individuals' property rights, or "rights of action" (Mantzavinos, 2001: 148). Coercive control, succinctly described as control through "force, fear, and expedience" (Scott, 2001: 53), encourages institutional adherence via implicit threat of punishment. So, while individuals may observe informal rules to avoid social stigmatization, the observance of formal rules is largely a function of avoiding state-controlled sanctions. As such, discussion of the effects of formal institutions often focuses on which party – whether in a dyad, triad, group, or society – has the strongest legal rights in a particular situation. (Note that, for the moment, I will assume uniform enforcement of formal institutions across countries. However, I will relax and explicitly address this assumption in Chapter 3.2.5.).

How, then, will a society's formal rules affect managerial discretion? Recall again that an executive's action falls within stakeholders' zones of acceptance as a function of the perceived radicality of the action and the relative power of those perceiving the action as radical (Hambrick & Finkelstein, 1987). Formal institutions will most strongly affect the latter of these two characteristics, the relative power of firm stakeholders. What most strongly affects power

differentials between executives and other stakeholders? The relative legal rights of those stakeholders. To understand how discretion will differ cross-nationally as a result of formal institutions, we need to examine the relative legal rights of executives, vis-à-vis key stakeholders, across different national systems.

Once again, it is not feasible to examine every single statutory rule that might differentially affect discretion. However, similar to the case of informal institutions, there are a small number of formal institutions which will be most central, most influential, and most important in terms of their impacts on national-level managerial discretion. I will discuss in detail how discretion will differ cross-nationally as a function of a society's: a) legal tradition, b) prevailing firm ownership structure, c) labor market flexibility, and d) political order (see Figure 1). In terms of key firm stakeholders, legal tradition reflects the influence of the legal system in general, ownership structure reflects the influence of shareholders, labor market flexibility reflects the influence of employees, and political order reflects the influence of government. In the sections below, I will examine each of these four institutions in detail, and examine why each exerts a fundamental influence on managerial discretion.

3.2.1. Legal Tradition

In a comprehensive research stream, La Porta and colleagues (Botero, Djankov, La Porta, Lopez-de-Silanes, & Shleifer, 2004; Johnson, La Porta, Lopez-de-Silanes, & Shleifer, 2000; La Porta, Lopez-de-Silanes, & Shleifer, 1999, 2006; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1997, 1998, 2000a, 2000b, 2002; Shleifer & Vishny, 1997) have investigated some of the central links between law and finance. Amongst other issues, these authors have examined how different types of legal systems, or legal traditions, are associated with various national-

level structural indicators, such as investor protection, enforcement mechanisms, capital market development and liquidity, controlling shareholder incidence, dividend payout practices, access to capital, corporate valuation, and the regulation of labor markets. This collective body of work strongly indicates that a fundamental cross-national distinction is between a common-law (adversarial) legal tradition, derived from English law, and a civil-law (inquisitorial) legal tradition, derived from Roman law². Australia, U.K., and U.S. are examples of common-law countries, while France, Germany, and Sweden are examples of civil-law countries (see Glaeser and Shleifer (2001), van Caenegem (1987), and Yelapaala, Robino-Sammartano, and Campbell (1986), for more details on the historical distinctions between common-law and civil-law systems)³.

Common law is often distinguished from civil law in terms of its more extensive utilization of precedent derived from earlier judgments on related matters. For example, in common-law countries, statutes tend to give only very broad guiding principles, which are then more precisely defined by legal precedent. In contrast, the more codified civil law places considerably less weight on precedent. More important for the purposes of discretion, though, are the differing origins of the two systems. The common law evolved primarily as a way to protect the rights of private property owners against the Crown (Mahoney, 2001). From its outset, the common law served to enhance property owners' confidence in private transactions. In contrast, the civil-law system developed more as a means of solidifying state power (North & Weingast, 1989).

² Other legal traditions not discussed by La Porta and colleagues, such as socialist law or Islamic (Sharia) law, may also have relevant implications for managerial discretion. However, all countries considered in this dissertation, and the vast majority of countries overall, possess either a common-law or a civil-law tradition.

³ Also note that civil-law systems are sometimes divided into three groups: French-origin (e.g. France, Italy, Spain), German-origin (e.g. Austria, Germany, Japan), and Scandinavian-origin (e.g. Finland, Norway, Sweden).

These different legal origins have, in a path-dependent manner, resulted in different emphases in the current corporate universe. In common-law countries, the rights of property owners (i.e. a firm's shareholders) continue to be privileged over those of other stakeholders (La Porta et al., 1998). In civil-law countries, insiders (executives and directors) are required to take into account the interests of all corporate stakeholders, including employees, customers, and society at large. Thus, the legal requirements of a common-law public executive can be largely encapsulated in the phrase, "maximize shareholder wealth". The legal requirements of a civil-law public executive cannot be expressed in the same succinct manner (Johnson et al., 2000).

At first glance, it may seem that this more diffuse constraint on civil-law executives would result in greater discretion. In fact, the very opposite is more likely to be true. Common-law executives are legally constrained to pursue a particular end ("maximize shareholder value"), but are given almost free rein in terms of the means available to pursue this end. On the other hand, the constraints on a civil-law public executive exist at the level of means, not ends (cf. Shen & Cho, 2005). For example, closing down a large domestic manufacturing plant and outsourcing production overseas may eventually result in a significant increase in firm wealth. However, such an action may simultaneously harm a large number of employees and perhaps even an entire geographic region. Therefore, this action – negatively affecting as it does several key stakeholders – is more likely to be protested, delayed, and possibly shelved entirely in civil-law countries. Overall, then, the more proximal pressure of stakeholder protection will tend to provide greater constraint on discretion than the more distal pressure of shareholder value maximization.

Relatedly, boards of directors in civil-law countries tend to have greater power relative to executives and a more central role than their common-law counterparts (Roe, 1993).

Structurally, civil-law systems are more likely to use a two-tiered board model, where a managerial board (similar to a U.S. top management team) reports to a supervisory board (similar to a U.S. board of directors). No executives sit on the supervisory board and sometimes, as in the case of Germany, the board includes a required number of labor representatives (Charkham, 1994). In contrast, the one-tiered board system characteristic of common-law countries tends to allow greater flexibility for senior managers and offers less significant constraints on their actions.

In sum, I argue that CEOs of public firms headquartered within common-law countries will tend to have greater discretion than CEOs of public firms headquartered within civil-law countries.

Proposition 5: Societies with a common-law legal tradition (compared to societies with a civil-law legal tradition) will provide greater discretion to CEOs of firms headquartered in that society.

3.2.2. Prevailing Firm Ownership Structure

A second important formal institution that will affect discretion is firm ownership structure, the national-level patterns in how, and by whom, a firm's equity is held. Agency theory states that a shareholder's influence over a firm's assets and actions will be related to the proportion of firm equity held by that shareholder (Jensen & Meckling, 1976). Concentrated ownership provides shareholders with both the incentive and the means with which to pursue their own interests (Demsetz & Lehn, 1985; Gedajlovic & Shapiro, 1998), whether those interests are related to operational stability, lifetime employment, market share growth, or some other desired outcome. At its core, then, ownership is a source of power over a firm and its executives (Porter, 1990: 110; Salancik & Pfeffer, 1980). When ownership is diffuse, though, the capacity to influence a firm's actions and outcomes shifts toward a firm's executives.

In the former case, where ownership is concentrated, CEOs' latitudes of action (and often their latitudes of objectives (Shen & Cho, 2005)) are far more likely to be constrained (Jensen & Meckling, 1976). If a firm's CEO pursues a course of action that is at odds with the expectations of the firm's major shareholder, the CEO is much more likely to experience resistance than if there were no such major shareholder in place. In contrast, when firm ownership is diffuse, shareholder influence over the operations of a firm tends to also be more diffuse, occurring at an arm's-length to the firm. When there are few or no controlling interests in the firm, senior executives will have a greater opportunity to carry out their desired strategic actions. Note that I am not suggesting that all firms within a particular country will have the exact same ownership structure. Instead, I argue that the central tendency of firm ownership patterns within a country will position that country somewhere on the continuum of concentrated versus diffuse ownership, with commensurate implications for executive discretion.

This relationship between firm ownership structure and discretion has in fact begun to be addressed, for public firms at least, in some of the cross-national economic sociology literature (Amable, 2003; Whitley, 1999). For example, Hall and Soskice (2001) have developed a "Varieties of Capitalism" framework. These authors distinguish between liberal market economies (LMEs), those countries where public firms use mostly equity finance and have dispersed shareholdings (e.g. U.S.), and coordinated market economies (CMEs), those countries where public firms have a heavier reliance on long-term, stable, concentrated ("patient") shareholdings (e.g. Germany). Hall and Soskice (2001: 24) discuss the impact that a country's variety of capitalism will have on executive discretion:

The internal structure of the firm reinforces these systems of network monitoring in many CMEs. Unlike their counterparts in LMEs, for instance, top managers in Germany rarely have a capacity for unilateral action. Instead, they must secure agreement for major decisions from supervisory boards, which include employee

representatives as well as major shareholders, and from other managers with entrenched positions as well as major suppliers and customers.

Thus, while this example focuses on Germany, the broader message – that countries characterized by concentrated firm ownership patterns will be associated with less executive discretion – is relevant across countries.

Proposition 6: The more that a society's prevailing firm ownership structure is diffuse, the greater the discretion available to CEOs of firms headquartered in that society.

3.2.3. Labor Market Flexibility

Labor markets are flexible to the extent to which they permit employees and employers to rapidly alter the scope and nature of their interactions in response to changing economic or strategic conditions (Black, 2001). Labor markets are inflexible when employee-employer relations are heavily or completely determined by historical agreements, legislation, and other non-market factors. Thus, labor market flexibility is a broad construct, which may incorporate multiple domains, such as wage bargaining, work centralization, and pension entitlements (Klau & Mittelstadt, 1986). A particularly important element of labor market flexibility, in terms of managerial discretion, is employment protection, the likelihood that employees will be retained by the firm, irrespective of economic conditions or changes in strategic intent (Estevez-Abe, Iversen, & Soskice, 2001).

Put simply, the lower the level of labor market flexibility, the less discretion available to executives. First, inflexible labor markets will most obviously be a major constraint during periods of downturn, as executives will have far fewer powers in terms of employee furloughs and layoffs. Large-scale layoffs, a typical component of the turnaround strategy in Anglo-American firms (Lee, 1997), are considerably less common in many Continental European

nations, such as Germany (Gangl, 2003), and continue to create enormous upheaval when they do occur (Ewing & Hibbard, 2005).

Second, executives may even find it more difficult to hire individuals in periods of rapid corporate growth. If regulations governing employee hiring practices are particularly complex or onerous, a CEO may find excessive growth almost as difficult to cope with as company downturns. Thus, knowing this, executives are more likely to manage their businesses in a risk-averse manner. If a chief executive knows that it will be cumbersome to hire new employees and virtually impossible to lay off existing employees, then he or she is far more likely to seek slow corporate growth within narrow and stable limits, and avoid quantum or risky strategic actions.

Third, constraints on discretion due to labor market inflexibility may exist even beyond those issues directly related to the hiring and firing of employees. For example, the ability of a CEO to make strategic intra-firm personnel changes may also be limited. Recognizing that their employment is relatively secure, rising middle managers and low level vice-presidents may be less inclined to allow themselves to be transferred, even temporarily, to other divisions or geographic regions. In turn, this will affect issues as diverse as knowledge transfer, headquarters-subsidiary relations, and succession planning. Furthermore, extensive structural changes, such as major mergers and acquisitions, could be less attractive when employment protection is high. Following a large acquisition, senior executives typically face considerable challenges in matching individuals and positions. Not only is there position overlap, leading to potential redundancies, but also new operational, cross-functional, and managerial positions arise. The relatively greater entrenchment of employees may make it more difficult to encourage individuals to leave their existing positions to fill these new ones. In the aggregate, this may have a significant impact on a CEO's ability to undertake his or her preferred strategic actions.

Overall, therefore, I argue that labor market inflexibility will act as a substantial constraint on managerial discretion.

Proposition 7: The more that a society's labor markets are flexible, the greater the discretion available to CEOs of firms headquartered in that society.

3.2.4. Political Order

A final important formal institution in a society is the level of political freedom. Freedom is a function of democracy (the right to organize into political parties and to hold free elections) and liberalism (the rule of law and stability of economic freedoms) (Pejovich, 1995; Zakaria, 2003). At one end of the spectrum are liberal democracies, such as France and Italy, characterized by a stable rule of law, individual rights, and free elections (Bollen, 1993). At the other end of the spectrum are illiberal autocracies, such as North Korea, with few individual freedoms or political rights (Olson, 2000).

Executives managing firms headquartered in liberal democracies will have greater discretion (cf. Huysmans, 2004). These executives will be able to operate largely without interference from the government, will be free to lobby the government as required, will have enforceable legal protection over intellectual property (thus allowing more radical, investment-intensive innovation), will have greater confidence in the stability and consistency of contracts with firm stakeholders, and will tend to be safe from expropriation of resources through graft and corruption (Warren, 2004). Each of these factors will permit corporate executives to place their own idiosyncratic stamps on their firms, largely free of political constraints.

In contrast, executives managing firms headquartered in illiberal autocracies will experience far less discretion. These executives will be operating in environments where property rights are tenuous at best, where government control and possible interference is

pervasive, where long-term contracts are less likely to be honored, where intellectual property is less protectable and may not even be available for private ownership, and where corruption is manifest (Goldsmith, 1999). In these situations, executives will be far more likely to attempt to grow their firms cautiously, incrementally, and with as little risk as possible.

Proposition 8: The more that a society's political order is democratic and liberal, the greater the discretion available to CEOs of firms headquartered in that society.

3.2.5. Enforcement of Formal Institutions

Formal rule enforcement concerns the extent to which statutory laws in a society are upheld and transgressions are sanctioned (Greif, Milgrom, & Weingast, 1994). Mechanisms of enforcement are complex and may include, “Warranties, guarantees, trademarks, the resources devoted to sorting and grading, time and motion studies, the bonding of agents, arbitration, mediation, and of course the entire system of judicial process” (North, 1990: 31). Some empirical research has begun to examine the role of enforcement mechanisms at a national level (Defond & Hung, 2004). For example, using a measure of enforcement based on judicial efficiency and government corruption, Leuz and colleagues (2003) found evidence for a relationship between strong law enforcement mechanisms and developed capital markets. Similarly, much of the institutional economic literature tends to adopt the premise that strong formal enforcement mechanisms in a society are inherently positive, based on the argument that greater protection of property rights results in better developed capital markets (e.g. La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000).

In terms of managerial discretion, though, I argue that formal enforcement will not have a consistent direct effect (either positive or negative). Partly, this is because there are a number of situations where either strong or weak enforcement could theoretically increase discretion. For

example, strong enforcement in a society might increase executive discretion, as better enforcement would allow an executive to rely on legal contracts and so could undertake longer-term transactions. At the same time, one might argue that discretion would be greater in a society with weak enforcement, as an executive (particularly an unethical or nefarious one) might feel less constrained by the terms of existing contracts, and would thus have a greater range of actions to choose from. More importantly, though, enforcement characteristics will not have a consistent direct impact on discretion because, similar to informal norms, formal rule enforcement will instead act as a moderator of the impact of formal institutions on discretion. Stronger enforcement in a society will amplify the effect of a society's legal tradition, prevailing firm ownership structure, labor market flexibility, and political order, while weak enforcement will attenuate the impact of each institution (see Figure 1).

Specifically, executives operating in societies with formal institutions generating high levels of discretion – those with a common-law legal tradition, a diffuse ownership structure, a flexible labor market, and a liberal and democratic political system – will experience even greater discretion when enforcement mechanisms are strong. Enforcement mechanisms will affect an executive's discretion to undertake an action by affecting the power of those perceiving an action as radical (cf. Hambrick & Finkelstein, 1987). When executives have relatively greater legal power vis-à-vis major stakeholders (government, shareholders, labor) due to favorable formal institutions, strong enforcement will enhance this power even further. At the same time, strong enforcement mechanisms will further restrict the discretion of executives operating within low-discretion national contexts – those with a civil-law legal tradition, a concentrated prevailing ownership structure, an inflexible labor market, and an illiberal and autocratic political system. Thus, strong enforcement will amplify power differentials arising from the nature of formal

institutions, while weak enforcement will ameliorate relative power differentials between executives and major stakeholders.

Proposition 9: Strong formal rule enforcement in a society will amplify the effect of formal institutions on managerial discretion.

3.3. Institutional Interrelationships and Reinforcement

Up to this point, I have discussed how informal and formal institutions will affect managerial discretion. To illustrate this argument, I have examined in detail how three informal institutions and four formal institutions will, separately, impact discretion. This raises one further important question. What is the nature of the relationship between informal and formal institutions? There are several issues to consider here. Will informal or formal institutions affect discretion more strongly? How do informal and formal institutions interact? Do institutions reinforce each other to the extent that the majority of institutions in a society will tend to have similar effects on executives' latitudes of action or constraints?

Questions concerning institutional interrelationships and causal primacy are complex. While the tenets of analytical rigor require researchers to consider institutions separately, and to distinguish between informal and formal institutions, the reality is usually far messier and less clear-cut. In addition, institutions rarely have clearly defined beginnings and endings. As Scott (2001: 95) notes, "Institutions do not emerge in a vacuum; they always challenge, borrow from, and, to varying degrees, displace prior institutions." Furthermore, the pace of institutional change is slow, sometimes glacial (Helmke & Levitsky, 2004). However, some tentative conclusions regarding institutional interrelationships can be offered.

First, I argue that formal institutions will have an increasingly strong influence on discretion (compared to informal institutions) as a society becomes more populous, more

economically advanced, and more specialized (cf. North, 1991). To take an anthropological perspective, small communities of individuals rely almost entirely on informal institutions in their commercial interactions (Colson, 1974). Trade is characterized by face-to-face bartering, based on kinship and other social ties, with transactions enforced by informal means, including family loyalty and coercion (Shirley, 2005). Returning to the idea of institutions as problem-solving mechanisms, whose primary function is to reduce uncertainty, one can view institutions as emerging when there is widespread societal recognition of a problem that cannot be satisfactorily resolved by existing institutions (Suchman, 1995). Thus, as communities grow, and trade begins to occur outside narrow social circles, formal rules emerge to facilitate transactions (North & Weingast, 1989). These formal rules will complement existing informal norms and so tend to echo the values of the communities in which they are formed. Informal constraints tend to be more salient when the enforcement of formal constraints is weak or lacking (see Peng, 2002, for a discussion of this point). Thus, formal constraints on managerial discretion may be relatively more immediate within developed countries, where the rule of law is stronger, and relatively weaker in developing countries.

Second, I argue that, in terms of managerial discretion, informal institutions will have a stronger causal influence on formal institutions than vice versa. As suggested above, formal institutions will develop in a fashion that echoes, rather than undermines, prevailing social norms, cultural values, and “logics” (Dobbin, 1994: 11). Thus, social norms will tend to become formalized in legal rules (indicated by the solid line linking informal and formal institutions in Figure 1). For example, the United Kingdom and the United States are, according to many cultural typologies, highly individualistic societies (e.g. Hofstede, 2001). It is probably not a coincidence that these countries also have a common law legal tradition, which provides greater

protection of individual property rights (La Porta, Lopez-de-Silanes, & Shleifer, 1999). Japan and South Korea, which are considered to be more collectivistic, share a civil law legal tradition, which provides relatively weaker protection of individual property rights (Hoskisson, Cannella, Tihanyi, & Faraci, 2004). While long-standing formal rules can be expected to also have a reciprocal impact on informal norms, this impact will tend to be weaker (indicated by the dashed line linking formal and informal institutions in Figure 1) (Mantzavinos, 2001: 151-152; North, 1990: 101; Pejovich, 1999; Shirley, 2005). Therefore, in terms of managerial discretion, I argue that informal institutions should be considered to possess causal primacy.

Third, the interaction between informal and formal institutions described above is also consistent with existing research in international political economy and economic sociology, which suggests that formal institutions within a society are often complementary – the institutions reinforce each other (e.g. Whitley, 1999; Yamamura & Streeck, 2003). For example, it is more common to find public companies with large blockholdings in countries where investor protection is relatively weak (e.g. La Porta et al., 2000). Also, while the original “varieties of capitalism” literature (Hall & Soskice, 2001) makes no explicit mention of the distinction between common-law and civil-law systems, each liberal market economy mentioned by these authors has a common-law legal tradition. This might perhaps be expected, since the more powerful investor protection laws of a common-law country are more likely to allow dispersed public company share ownership, while the weaker investor protection laws of a civil-law country are more likely to encourage ownership concentration. Therefore, I argue that institutions within a society will tend to reinforce each other, and will tend to have a relatively consistent impact on the discretion of corporate executives.

Chapter 4

MANAGERIAL DISCRETION AND CEO EFFECTS

In Chapter 3, I discussed how and why national environments might differ in terms of the discretion provided to CEOs. If this is indeed the case, what are the implications of these differences in cross-national discretion? If a particular national setting provides a high level of discretion, how will CEOs, firms, and perhaps even societal perceptions differ compared to those in a low-discretion environment? I will now investigate some of the major consequences of cross-national differences in discretion. In this Chapter, I will present theory, hypotheses, methodology, and results from an analysis of the impact of managerial discretion on CEO effects (see Figure 2). In later Chapters, I will investigate the impact of discretion on CEO characteristics (Chapter 5) and the firm performance-CEO departure relationship (Chapter 6). In Chapter 7, I will discuss how these direct effects of national-level discretion may be moderated by firm-level internationalization. Although each of these sections are clearly related, and draw on similar empirical samples, I separate the analyses into distinct Chapters for the sake of clarity.

Figure 2 about here

4.1. Theory and Hypotheses

The most fundamental dependent variable category in the nomological network of managerial discretion is that of executive effects (Hambrick & Finkelstein, 1987). Most logical and straightforward of all theoretical predictions concerning discretion is that executives in high-discretion environments (i.e. those with greater latitudes of action) will have greater substantive impacts on their firms' outcomes than those in low-discretion environments.

Over the last several decades, a stream of empirical research has attempted to determine the amount of variance in firm-level outcomes (e.g. firm sales, profit margin, or return on assets) that can be attributed to CEO-level factors (e.g. Lieberman & O'Connor, 1972; Thomas, 1988; Bertrand & Schoar, 2003). This research stream has employed a range of variance decomposition techniques (such as ANOVA and variance components analysis) to parse out the impact of year-level factors, industry-level factors, and firm-level factors, and then calculate the relative impact of CEOs.

Other studies have examined this question also. For example, Adams, Almeida, and Ferreira (2005) looked at the impact of several discretion-enhancing structural variables on the magnitude of firm performance variance. These authors found that firms showed greater variance in return on assets, Tobin's Q, and stock returns when the CEO: a) was a company founder, b) was the only inside director, and c) also possessed the title of president and board chair. Adams and colleagues (2005) theorized that the greater discretion accruing to the CEO as a result of these structural arrangements was causally related to the greater firm-level variance.

CEOs in low-discretion situations will be statistically associated with lower levels of firm performance variance. They will have a smaller range of strategic choices from which to select, narrower scope in terms of the implementation of those decisions, and less freedom to curtail or augment previously implemented actions. This reduced latitude of action means that firm-level actions taken by a given CEO are more likely to be similar to other actions: 1) taken previously within his or her tenure, 2) taken by previous CEOs within the firm, and 3) taken by other CEOs within the same industry or sector. Therefore, variance in firm performance from one CEO to another is likely to be reduced and executives are more likely to take actions consistent with any other equally qualified individual in the same situation.

In contrast, CEOs in high-discretion situations will tend to be associated with greater variance in firm performance. The weaker legal and normative constraints on the actions of high-discretion CEOs will result in a greater range of acceptable strategic options (even when pursuing similar goals) and greater scope in terms of decision implementation. Thus, the broader opportunity set available in high-discretion settings means that there will be less chance a given CEO pursues a similar course of action to his or her predecessors or industry counterparts. Greater variance in strategic decision making will then tend to translate into greater CEO-attributed variance in firm performance (a larger “CEO effect”).

A CEO effect within a given sample will be higher when many individual CEOs are associated with quantifiable strategic actions and outcomes during their tenure that differ markedly from those of their predecessors and those of other firms within the same industry. Furthermore, not only is a greater CEO effect a sign of greater discretion, but the opposite is also true. A low CEO effect is a sign of less discretion. While one could argue that CEOs have discretion, but that they use this discretion to reduce firm performance variance, a general tendency to do so across multiple firms and industries is actually itself reflective of a discretion constraint. If CEOs in a particular environment are consistently and repeatedly using their discretion to minimize performance variance, and therefore refrain from putting their own idiosyncratic stamps on their firms, it is reasonable to infer that the CEOs are in fact responding to pressures to do so, be they coercive (formal) or normative (informal).

For example, a recent study of the practice of “earnings management” (Leuz, Nanda, & Wysocki, 2003) finds that countries purported to be high in discretion in this dissertation, (e.g. U.S., U.K.) tend to show less earnings management than those countries that are purported to be

low in discretion⁴. A feasible interpretation of these results is that there is greater pressure on executives in low-discretion countries to take particular actions, including actions that result in expected levels of performance. Thus, the executives are constrained to take actions, including earnings management, which are within the zone of control of powerful stakeholders. In contrast, high-discretion executives have sufficient discretion to take actions that result in earnings variance. Therefore, I argue that the CEO effect – the variance in firm performance attributable to CEOs – will tend to be greater in high-discretion than in low-discretion countries.

Hypothesis 1 (H1): The greater the level of managerial discretion in a society, the greater the variance in firm performance attributable to CEOs.

4.2. Methods

4.2.1. Sample

I used a sample of firms from the 2006 Forbes Global 2000, an annual listing of the 2000 largest public firms in the world. I began by including those firms from the sample that were headquartered in the 25 countries classified as “high-income” (developed) OECD societies (World Bank, 2007). I also included firms from Israel and Singapore, due to the widespread use of these countries in previous cross-national studies (e.g. La Porta et al, 1998; Schwartz, 1994). Of this group of 27 countries, sufficient data were not available for three countries (Czech Republic, Iceland, and Luxembourg). Also, I removed New Zealand from the sample as it was

⁴ Earnings management is defined as, "the alteration of firms' reported economic performance by insiders to either mislead some stakeholders or to influence contractual outcomes." (Leuz et al., 2003). It is operationalized by a number of measures including earnings smoothing (e.g. variance in income and cash flow) and earnings discretion (e.g. "small profits"/"small losses").

represented by only a single firm. This left a total of 1662 firms from 23 countries⁵. Three countries were represented by more than 100 firms: United States (693 firms), Japan (320 firms), and United Kingdom (122 firms). As it was not feasible to gather data on every firm from each of these countries, I took a random sample of 100 firms per country. I chose 100 firms to allow a direct comparison of my results with Crossland and Hambrick's (2007) related work in this area. For the remaining 20 countries, I included all firms from each country. This resulted in a final sample of 827 firms from 23 different countries and 27 different industries (see Table 2).

Table 2 about here

My sample frame consisted of the five financial years from 2002-2006 inclusive. For each of the 827 firms, I determined the month in which its financial year-end fell. I then attributed each financial year to the CEO that was in office 12 months prior to the end of that financial year. For example, if the 2005 financial year for a particular firm ended in June, I attributed the 2005 financial year to the CEO that was in office at the end of June 2004. Also, to reduce the chance of including interim CEOs, I only included those CEOs who remained in office for at least six months. This resulted in a total of 4009 firm-years of data across 827 firms. I gathered CEO-level data from annual reports, regulatory filings, press releases, company websites, news media, and country-specific databases.

4.2.2. Managerial Discretion

In empirical studies to date, managerial discretion has been operationalized in a number of different ways. Most simply, discretion has been treated as a “black box”, whereby discretion

⁵ Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Israel, Italy, Japan, South Korea, Netherlands, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, United Kingdom, and United States.

is the basis of the purported theoretical link between an independent and a dependent variable, but is not itself measured (e.g. Rajagopalan, 1997). A second method has been to operationalize discretion in terms of some of its purported antecedents, as suggested by Hambrick & Finkelstein (1987). At the organizational and industry levels, this has included capital intensity, market growth, sales volatility, advertising intensity, and R&D intensity (e.g. Finkelstein & Boyd, 1998; Halebian & Finkelstein, 1993). Occasionally, a single one of these measures has been used to operationalize discretion as a control variable (e.g. Carpenter et al. (2001) used capital intensity). A third method has been to ask executives themselves about their perceptions of discretion (e.g. Carpenter and Golden, 1997). A final method has been to use expert panel data, both from academics and business analysts (e.g. Hambrick & Abrahamson, 1995).

While the use of an expert panel is obviously more subject to perceptual biases, it has the distinct advantage of coming closest to measuring discretion itself, rather than the factors that are better viewed as antecedents of discretion. For example, sales volatility is an indication of turbulence and uncertainty. This turbulence and uncertainty creates a great deal of means-ends ambiguity when attempting to formulate strategic decisions, and thus allows considerable discretion. The volatile sales level creates an environment where discretion is high, but is not discretion itself. A further advantage of using expert panel data is that experts in a field have both an understanding of discretion in multiple contexts and a relatively disinterested viewpoint (compared with, say, CEOs themselves). Therefore, following Hambrick and Abrahamson (1995), I used an expert academic panel to measure national-level managerial discretion.

I searched the Social Science Citation Index for all studies published in *Academy of Management Journal*, *Academy of Management Review*, *Administrative Science Quarterly*, *Journal of International Business Studies*, *Journal of Management*, *Management Science*,

Organization Science, and Strategic Management Journal, from 1997 to 2006, with the terms “cross-national,” “cross-cultural,” “international,” “countries,” or “nations” in their titles, keywords, or abstracts. This search produced a total of 806 articles. Seventy-three individuals had authored or co-authored at least four of these articles. I contacted each of these 73 individuals and asked them to participate in the study. Twenty-nine individuals agreed to participate, with 26 (36%) providing usable responses; these 26 individuals comprised the expert panel. See Appendix C for a copy of the recruitment e-mail used to contact the members of the expert panel and Appendix D for a copy of the informed consent form.

Each panelist was first given a short description of managerial discretion. To provide anchors, each panelist was then asked to rate, on a 1-7 scale, their view of the level of discretion available in German, Japanese, and U.S. business environments. Related work in this area suggests that these are, respectively, moderate, low, and high discretion environments (Crossland & Hambrick, 2007)⁶. Panelists were then asked to rate (also on a 1-7 scale) the level of discretion in any of twelve other national environments – Australia, Austria, Canada, France, Italy, South Korea, Netherlands, Singapore, Spain, Sweden, Switzerland, and United Kingdom – with which they felt sufficiently familiar. See Appendix E for a copy of the questionnaire completed by the members of the expert panel. All 26 panelists provided discretion ratings for the three anchor countries. The remaining countries were given discretion ratings by between 14 and 26 panelists (mean = 21.5). See Table 3 for the national-level discretion scores for these 15 countries.

Table 3 about here

⁶ Note, though, that this study was published in August 2007, which was *after* the members of the expert panel were surveyed (May-June 2007), so it is unlikely that they were significantly influenced by its findings.

To assess inter-rater reliability for the academic panel, I calculated the intraclass coefficient (ICC). As these panelists comprised the entire relevant sample, I used ICC(3,k) (Judge, Cable, Colbert, & Rynes, 2007; Shrout & Fleiss, 1979). I computed ICC by consistency, rather than agreement, because the questionnaire required members of the expert panel to make comparative, rather than absolute, judgments concerning different national discretion environments (McGraw & Wong, 1996). ICC(3,k) for the entire sample was 0.90, and ICC(3,k) for the three anchor countries was 0.96. Although the methodological literature provides few guidelines as to required levels of intraclass correlation, other management studies have argued that similar levels as these indicate strong inter-rater reliability (e.g. Chen, Farr, & MacMillan, 1993; Taggar, 2002).

In order to evaluate the predictive validity of my arguments in Chapter 3 regarding the importance of informal and formal institutions, and to impute discretion scores for the remaining eight countries, I gathered existing data on four of the seven institutions discussed in Chapter 3: social norms concerning autonomous actions, norms concerning unpredictable actions, legal tradition, and labor market flexibility. I included these four institutions for three reasons. First, the range of countries considered meant that there would be relatively little variance in terms of political order. Second, studies indicate that legal tradition and firm ownership structure co-vary strongly in high-income societies (e.g. La Porta et al, 1998). Third, there is significantly more cross-national data available regarding the two informal institutions chosen than for the remaining informal institution (norms concerning the role of leaders).

Data were taken from the following sources. Legal tradition data were taken from La Porta et al (1998), with each country being designated as a common-law or a civil-law system. Labor market flexibility data were taken from Estevez-Abe et al (2001) and Botero et al (2004),

with each country assigned a weighted index of employment protection. Data on social norms regarding autonomous actions and unpredictable actions were taken from, respectively, Hofstede's (2001) measures of individualism vs. collectivism and uncertainty avoidance. See Table 4. I also generated a single index of all four national institutions by converting data for each institution to a z-score and adding the four z-scores together.

Table 4 about here

As can be seen in Table 4, the inter-correlations among the four institutions are generally high ($0.16 \leq r \leq 0.87$; Cronbach's alpha = 0.78), but managerial discretion is most highly correlated with the single institutional index. Therefore, I used this index variable to impute discretion scores for Belgium, Denmark, Finland, Greece, Ireland, Israel, Norway, and Portugal⁷. To create these scores, I began with the 15 countries for which I already had national-level discretion scores (see Table 3). First, I regressed managerial discretion on the institutions index for these 15 countries, generating a constant term ($\beta_0 = 4.84$ (s.e. = 0.09); $p < .01$) and a beta coefficient ($\beta_1 = 0.18$ (s.e. = 0.03); $p < .01$)⁸. Second, for each of the eight new countries, I multiplied this beta coefficient (0.18) by the institutions index for that country and added the constant term (4.84). This produced managerial discretion scores for these eight countries. For example, the institutions index for Norway was -0.36. Multiplying this figure by 0.18 and then adding 4.84 generated an imputed discretion score of 4.78. See Table 5 for the full list of national-level discretion scores and Table 6 for a full list of all variables used in this dissertation.

Tables 5 and 6 about here

⁷ These eight countries accounted for approximately 10% of the total sample firm-years (396 out of 4009).

⁸ The overall model was also significant ($F(1,13) = 38.30$; $p < .01$)

4.2.3. Firm Performance

I examined five different measures of firm performance: *return on assets* (ROA), *return on invested capital* (ROIC), *return on sales* (ROS), *market-to-book* (MTB) ratio, and *sales growth* (SG). ROA is equivalent to net income divided by total assets. ROIC is equivalent to net income divided by the sum of total capital, short-term debt, and the current portion of long-term debt. ROS is equivalent to net income divided by net revenues. MTB is equivalent to market capitalization at the end of the financial year divided by the firm's total book value (total assets less total liabilities). SG is equivalent to net revenues in year t minus net revenues in year $t-1$, all divided by net revenues in year $t-1$. These variables include both accounting-based and market-based measures, and have been previously used in a wide range of studies exploring CEO effects (e.g. Bertrand & Schoar, 2003; Crossland & Hambrick, 2007; Kaplan, 1994a).

4.2.4. Analysis

To calculate CEO effects for each country, I used a hierarchical linear modeling (HLM) procedure, based on Hough (2006). Over the last several decades, a range of variance-decomposition methodologies have been used to calculate the amount of variance in firm performance variables that can be attributed to CEO-level factors, once we account for year-, firm-, and industry-level factors. Earlier work in this area tended to rely on ANOVA-based methodologies, where each category of effects (year, then industry, then firm, then CEO) was entered into the model in turn (e.g. Lieberman & O'Connor, 1972; Weiner & Mahoney, 1981). The CEO effect is therefore the change in explained variance once CEOs are entered into the model. Later work has relied more heavily on Variance Components Analysis (VCA) (e.g. Chang & Singh, 2000; Makino, Isobe, & Chen, 2004), where each category of effects is assumed

to be randomly drawn from a population of all possible effects of that category. Thus, the CEO effect is the variance of the error term for the CEO categorical variable, divided by the total model variance. Several studies have used both ANOVA-based and VCA-based methods (e.g. McGahan & Porter, 1997; Rumelt, 1991).

One weakness of both ANOVA and VCA, though, is that neither methodology sufficiently addresses the inherent nesting structure of panel data. For example, imagine a 10-year sample of 100 firms, 20 from each of five industries, where each firm has an average of two CEOs over the course of the sample period. In this case, years (really firm-years) are nested within CEOs, which are nested within firms, which are nested within industries. This violates one of the central assumptions of the simple linear model, which assumes that error terms for each category of effects are independent. Thus, instead of a single error term, error at each level of analysis should be modeled separately. Hierarchical linear modeling (HLM), also known as multi-level or mixed effects modeling, overcomes this problem by explicitly estimating the different error components (see Hough, 2006; Klein & Kozlowski, 2000, for further discussion).

In this dissertation, I used a 4-level nested HLM model of years (level 1) within CEOs (level 2) within firms (level 3) within industries (level 4). Thus, ROA in a particular firm-year is modeled as a grand mean (γ_{0000}), with random effects for industry k (α_{000k}), firm j (β_{00jk}), CEO i (δ_{0ijk}), and year t (η_{tijk}), and an overall error term (ε_{tijk}). The model can be written as follows:

$$ROA_{tijk} = \gamma_{0000} + \alpha_{000k} + \beta_{00jk} + \delta_{0ijk} + \eta_{tijk} + \varepsilon_{tijk}$$

Using dummy variables for year, CEO, firm, and industry, I ran this model separately for each firm performance variable (ROA, ROIC, ROS, MTB, SG) for each of the 23 countries in the sample.

4.2.4.1. CEO Effects

To better understand how these models generate the “CEO effect,” it is helpful to consider a simple example using ROA and two countries: United States (high-discretion) and Japan (low-discretion). Total ROA variance in the U.S. sample was 53.33 (s.d. = 7.31). Firm-level, industry-level, and year-level random effects, plus error, accounted for a total variance of 33.96. The CEO-level random effect accounted for a total variance of 19.37 (53.33 – 33.96). Therefore, the proportion of firm variance attributable to CEO-level factors was 36.32% (19.37 divided by 53.33).

Total ROA variance in the Japanese sample was 15.24 (s.d. = 3.90). Firm-level, industry-level, and year-level random effects, plus error, accounted for a total variance of 12.17. Accordingly, the CEO-level random effect accounted for a total variance of 3.07 (15.24 – 12.17). Therefore, the proportion of firm variance attributable to CEO-level factors was 20.14% (3.07 divided by 15.24).

The first thing to note is that the total ROA variance in the U.S. sample ($\sigma^2 = 53.33$) was more than three times greater than the total ROA variance in the Japanese sample ($\sigma^2 = 15.24$). More importantly, though, we see that there are two possible ways to compare the impact of CEOs in the two countries. First, we could look at differences in the *magnitude* of ROA variance attributable to CEO-level factors. In this sample, CEO-level factors are associated with a greater magnitude of ROA variance in the U.S. (19.37) than in Japan (3.07). I refer to this as the *CEO effect (magnitude)*. Second, we could look at differences in the *proportion* of ROA variance attributable to CEO-level factors. Again, in this sample, CEO-level factors are associated with a greater proportion of total variance in the U.S. (36.32%) than in Japan (20.14%). I refer to this as the *CEO effect (proportion)*.

Crossland and Hambrick (2007: 769-770) defined the CEO effect, as *the proportion of variance in a firm-level outcome variable that is statistically associated with, or can be attributed to, the presence of individual CEOs in the sample*. Note, though, that this definition makes no reference to the size of total firm variance and is therefore narrower than is ideal. Thus, as discussed above, this construct should be more accurately labeled the CEO effect (proportion). In contrast, the CEO effect (magnitude) may be defined as *the magnitude of variance in a firm-level outcome variable that is statistically associated with, or can be attributed to, the presence of individual CEOs in the sample*. This broader definition makes no implicit assumptions about the size of total firm performance variance and thus more accurately captures the relative impact of CEO-level factors across countries.

I argue that, while both of these measures of CEO effect are relevant, they must be considered in order. First, and most importantly, it is necessary to demonstrate that high-discretion societies are associated with a greater magnitude of performance variance attributable to CEO-level factors. If this can be demonstrated, a second, more conservative, test of Hypothesis 1 may be undertaken by determining whether the proportion of firm performance variance attributable to CEO-level factors differs cross-nationally.

4.2.4.2. Weighted Least Squares Analysis

To test the relationship between managerial discretion and CEO effects at the national level, I used weighted least squares (WLS) regression. Ordinary least squares regression counts all data points (23 national-level points in this case) equally in minimizing the sum of squares (Bobko, 2001:123). However, CEO effects from different countries were constructed based on significantly different sample sizes. Thus, it would be incorrect to consider each CEO effect

estimate point to be equally accurate. Therefore, I weighted each CEO effect by the number of firm-years used in constructing the estimate, then modeled these relationships by minimizing the weighted sum of squares (WSS), where WSS is equivalent to $\sum_{i=1}^n \omega_i (y_i - X_i\beta)^2$; and ω_i is the number of firm-years per country (cf. Gelman & Hill, 2007: 389).

4.3. Results

Table 7 contains descriptive statistics and bivariate correlations for all variables used in this Chapter. These data are situated at the firm-year level, and are thus the original inputs for the HLM models discussed in Chapter 4.2.4. Recall that Hypothesis 1 argued that CEO effects would be greater in high-discretion than in low-discretion environments. I tested this hypothesis using five different performance variables, including both accounting-based and market-based measures (return on assets (ROA), return on invested capital (ROIC), return on sales (ROS), market-to-book (MTB), and sales growth (SG)).

Table 7 about here

I first examined the relationship between discretion and CEO effect (magnitude). Was discretion significantly related to CEO-attributable performance variance at the country level? The answer is yes, as can be seen in Table 8. Model 1a indicates that national-level managerial discretion is marginally significantly related to the CEO effect for ROA ($\beta = 3.32, p < .1$). As shown in models 2a, 3a, and 5a, respectively, discretion is also significantly related to the CEO effect for ROIC ($\beta = 14.51, p < .05$), ROS ($\beta = 14.97, p < .05$), and SG ($\beta = 20.91, p < .05$). However, as shown in model 4a, managerial discretion was not significantly related to the CEO effect for MTB ($\beta = 0.33, ns$). This provides moderate-to-strong support for H1, particularly in

view of the necessarily small sample size ($n = 23$). Note that Models 1b, 2b, 3b, 4b, and 5b in Table 8 contain results for moderating analyses related to firm internationalization. I will not discuss these analyses at this point, but will return to them when I comprehensively examine the role of firm internationalization in Chapter 7.

Table 8 about here

To provide a visual representation of the relationship between managerial discretion and the CEO effect at a country level, I created a single CEO effect (magnitude) index. I did this by taking the 23 country-level CEO effects for each of the five performance variables (Cronbach's $\alpha = 0.79$) and converting those into z-scores. I then summed the five z-scores per country to create a single CEO effect index per country. Figure 3 depicts the country-level relationship between managerial discretion and the CEO effect index ($r = .44$). Table 9 contains the magnitude of variance attributable to CEO-level factors for each of the five performance variables, and the CEO effect index, by country.

Figure 3 and Table 9 about here

I then completed a more conservative test of Hypothesis 1 by examining the impact of discretion on the proportion of total firm performance variance attributable to CEO-level factors. However, as can be seen from Models 1a, 2a, 3a, 4a, and 5a in Table 10, there was no support for this more conservative test of Hypothesis 1. Although each of the five beta coefficients for managerial discretion were positive as predicted, none of them were significant.

Table 10 about here

4.4. Summary

In this Chapter of the dissertation, I argued that high-discretion national environments would be associated with greater levels of firm performance variance attributable to CEO-level factors. I found moderate-to-strong support for the idea that discretion would be positively related to the CEO effect (magnitude). In a more conservative test of Hypothesis 1, I found no support for the idea that discretion would be positively related to the CEO effect (proportion). In the next Chapter, I will examine the impact of discretion on the demographic characteristics of CEOs across different countries.

Chapter 5

MANAGERIAL DISCRETION AND CEO CHARACTERISTICS

5.1. Theory and Hypotheses

If, as demonstrated in Chapter 4, CEOs in high-discretion environments do have greater effects on firm outcomes than those in low-discretion environments, then the fundamental role of a chief executive is likely to differ across countries. Mintzberg (1973) identifies ten managerial roles, which he divides into three groups: interpersonal roles (figurehead, leader, liaison), informational roles (monitor, disseminator, spokesman), and decisional roles (entrepreneur, disturbance handler, resource allocator, and negotiator). Several of these roles are clearly more symbolic (e.g. figurehead), while others are more substantive (e.g. resource allocator). Mintzberg (1973) suggests that almost all managers will occupy each role at some point, but that the time spent occupying each role may vary considerably, according to hierarchical level and the nature of firm-environment interactions.

5.1.1. Managerial Discretion and CEO Roles

In an environment where executives have, and are perceived to have, minimal discretion, those executives will tend to occupy more of a “titular figurehead” role (Hambrick & Finkelstein, 1987: 390). In contrast, executives operating within environments permitting considerable idiosyncratic influence will instead tend to occupy the role of the “unconstrained manager” (Hambrick & Finkelstein, 1987).

Broadly, a figurehead role is one that combines high levels of formal seniority with relatively low levels of substantive influence, e.g. constitutional monarchs and presidents of

parliamentary democracies (Rose & Kavanagh, 1976). Thus, the duties of individuals occupying such a role lean more heavily toward the symbolic (e.g. Mintzberg's (1973) figurehead, leader, and spokesman roles). Such an individual tends to lead his or her organization more through presence than actual decision-making. Through the executive's education, experience, personal characteristics, manner, and speech, he or she represents and reflects the firm. In this way, the executive's role consists more of occupying the CEO position than taking particular actions while in it. This is not to suggest that the titular figurehead role is an ignominious one. Indeed, the occupants of senior corporate roles in low-discretion settings may be accorded great prestige (Dore, 2005). However, the executive will tend to be accorded this prestige more because of the symbolic cachet of the CEO role than the influence available because of it. Therefore, selection into, and success or failure within, the role will be more determined by whether the executive's presence reflects stakeholder expectations than by pure measures of firm performance.

In contrast, the unconstrained manager role is one where formal seniority is coupled with high potential for substantive influence (Hambrick & Finkelstein, 1987: 391). Role occupants also have symbolic duties (cf. Pfeffer, 1981), but these executives will be expected to productively employ their greater substantive powers, and will be evaluated more heavily on substantive firm outcomes. Similar to low-discretion executives, prestige will accrue to the high-discretion executives as a function of their formal position, but this prestige will be much more related to actual firm outcomes (Daily & Johnson, 1997). Thus, stakeholder expectations will be less focused on the characteristics of a particular executive and more focused on his or her actions and, subsequently, the performance consequences of those actions.

I argue that a firm's key stakeholders – including employees, shareholders, debtholders, board members, societal observers, and executives themselves – will implicitly understand the

notion of discretion. Executives will understand discretion through their own experience, board members through their current or former careers as executives, shareholders and debtholders via repeated firm interactions, and members of society at large essentially through media-mediated osmosis. Therefore, executives operating within national environments permitting considerable discretion will tend to be perceived by firm stakeholders to have greater powers to influence firm actions and outcomes. In contrast, those executives operating within low-discretion countries will be perceived by stakeholders to have fewer opportunities to affect firm behavior. If the stakeholders within a firm do in fact perceive the level of discretion available to the CEO (cf. Tosi & Gomez-Mejia, 1989), then these stakeholders will tend to take actions broadly consistent with such a view. The actions of these stakeholders will be reflected in differences in the demographic characteristics of CEOs across countries and differences in the impact of firm performance on the likelihood of CEO departure.

5.1.2. CEO Characteristics

Research into top executives, including top management teams, boards of directors, and CEOs, has grown considerably over the last 20-30 years (see Carpenter, Geletkanycz, & Sanders, 2004, and Finkelstein & Hambrick, 1996, for reviews). Often building on upper echelons theory (Hambrick & Mason, 1984), the idea that the firm is a reflection of its top managers, most of the research in this stream tends to explore how a particular combination of executive characteristics relates to firm-level strategic actions or performance outcomes. Upper echelons theory argues that executives' cognitions and values will affect their interpretation of, and response to, environmental stimuli and, thus, their strategic decisions. As these cognitions and values are typically unobservable (although some efforts have been made to measure them directly; see

Kilduff, Angelmar, & Mehra, 2000, for an example), various demographic proxies or attributes are usually used instead. The most common proxies used include executive age (e.g. Simons, Pelled, & Smith, 1999), tenure and succession (e.g. Carpenter & Fredrickson, 2001), education (e.g. Hambrick, Cho, & Chen, 1996), and functional background (Geletkanycz & Black, 2001), each of which has been considered in terms of magnitude and heterogeneity.

Some studies have considered the average values of demographic characteristics. For example, Wiersema and Bantel (1992) found that top management teams with lower average ages and shorter organizational tenures were more likely to be associated with firm-level changes in diversification. Other studies have explored the impact of demographic homogeneity or heterogeneity. For example, Hambrick, Cho, and Chen (1996) found that TMT demographic heterogeneity was associated with slower strategic responses to competitors' actions. Accordingly, demographic characteristics have been shown to have considerable explanatory power as independent variables.

In addition to treating demographic characteristics as proxies for executives' interpretive frames, and, therefore, as predictor variables, it is also possible to treat demography as a dependent variable. The prevailing demographic characteristics of senior executives, within firms over time, or within industries, sectors, regions, or countries, provide considerable insight into a range of processes operating in the business environment, including corporate governance, power relations, and social norms (Cho & Hambrick, 2006). Studies adopting this approach are far fewer in number but some work has been undertaken. Rajagopalan and Datta (1996) found some support for hypotheses linking industry characteristics with CEO characteristics. For example, industry-level advertising intensity was negatively related to CEO firm tenure and positively related to CEO education levels. Also, industry-level capital intensity was positively

related to CEO throughput functional orientation (e.g. operations). Finally, industry growth rate was found to be positively related to CEO functional heterogeneity. Several studies have also begun to explore the impact of industry on the characteristics of successor CEOs. Datta and Rajagopalan (1998) found that industry product differentiation levels were positively associated with incoming CEO educational levels and negatively associated with CEO organizational tenure. Furthermore, evidence suggests that a new CEO is more likely to come from within an industry when the firms within that industry are strategically homogeneous (Zhang & Rajagopalan, 2003).

These studies provide an initial insight into some of the industry-level antecedents of CEO attributes. I attempt to build on and extend this work by examining some of the national-level, discretion-related antecedents of several important CEO attributes – age, tenure, and succession.

5.1.2.1. CEO Entry Age

The corporate executive role includes symbolic elements in all situations and environments (Pfeffer, 1981). In low-discretion settings the symbolic elements of the CEO task will be even more pronounced. Executives in low discretion situations are likely to spend a relatively greater proportion of their time fulfilling these particular roles. Those with some influence over CEO selection – typically the outgoing CEO, the board, and major shareholders or debtholders – will tend to recognize this greater importance of symbolism and choose accordingly.

A stream of research in psychology identifies that age is an important characteristic in individuals' perceptions of a certain role (e.g. Cleveland & Landy, 1983). In particular, several

authors have noted the tendency for individuals to prefer an older to a younger candidate for a high-status role (e.g. Singer & Sewell, 1989). CEO selection decisions in low-discretion environments, where the symbolic importance of age is greater, will tend to favor an older candidate. Thus, an executive's seniority itself, rather than the experience, skills, or capabilities that are typically associated with seniority, will be a crucial determinant of that executive's elevation to the position of CEO. As the symbolic nature of the CEO role becomes more pronounced, visible symbols of stewardship – grey hair, gravitas, sobriety in speech and manner – become correspondingly more important.

Furthermore, in low-discretion environments the relatively lower substantive influence of office holders means that the chief executive role may be partly a reward, not simply for high performance, but for long periods of service to the firm. Thus, CEOs will be more likely to be awarded the office toward the end of their careers and at more advanced ages. A relatively young executive vice president or division manager heading a successful business unit will be easier to overlook in favor of an older, more experienced, but perhaps less successful counterpart. When CEO succession is viewed (even implicitly) as a ceremonial passing of the baton, there will tend to be an assumption that the younger executive will eventually receive his or her "turn." Note that this does not argue that any manager of a given age might be considered for the most senior role in the company; instead I argue that, the lower the level of discretion, the more likely it is that "a chief executive could be replaced by any other nominally qualified person, without the organization's form or fate being altered substantially" (Hambrick & Finkelstein, 1987: 390). Thus, younger potential heirs apparent will tend to be overlooked (if perhaps only temporarily) for older candidates.

In contrast, the CEO selection process in high-discretion environments will tend to reflect the greater substantive influence of individuals in the CEO role, and so will be far more motivated to pursue and hire the “best” candidate for the position. Whether the particular choice turns out to be a success or failure is moot, as the decision itself will be made based on the perceived future firm performance associated with the CEO. Thus, in high-discretion settings, CEO selection will be more a function of business unit performance-based criteria and less a function of a candidate’s demographic characteristics, including age. In fact, one could further argue that, while greater experience will always be a desirable characteristic, it becomes increasingly difficult with every passing year for individuals to maintain the high levels of performance sought in a successful CEO appointee.

Furthermore, CEO succession decisions in low-discretion environments are likely to be influenced by some of the stereotypical characteristics of youth, including higher energy levels, less attachment to the status quo, and more flexible thinking (cf. Kite, Deaux, & Miele, 1991). Each of these characteristics will become relatively more important in an environment where the CEO has greater latitude to take advantage of strategic opportunities. Therefore, CEO appointments will tend to be made at younger ages in high-discretion settings.

Hypothesis 2 (H2): The greater the level of managerial discretion in a society, the younger the CEO entry age.

5.1.2.2. Heterogeneity of CEO Entry Age, Exit Age, and Tenure

As the process of CEO succession becomes more ceremonial, the nature of that process will become more institutionalized. Managers in low-discretion environments will be more likely to be promoted to the senior executive role toward the end of their careers, preside over a firm for a well-defined period of time, and pass the baton to their successor at an acknowledged

junction (Kaplan, 1994a). This process will tend to be more homogeneous and more robust to both firm outcomes and industry developments. Accordingly, as a result of formal and informal institutional pressures, the entry ages, exit ages, and tenures of CEOs will tend to show lower variance in low-discretion than in high-discretion countries. First, formal pressures will tend to be reflected in explicit mandatory retirement policies (Ashenfelter & Card, 2002). Second, there is also likely to be greater informal, non-statutory, pressure on low-discretion CEOs to depart at a particular time. For example, although Japanese firms vary considerably in whether or not they have an explicit mandatory retirement ages for their CEOs, one recent study found a low variance around the retirement age mean of 68 years (Itami, 1995, cited in Kim, 2001). Hence, even in the absence of formal, coercive pressure to retire at a particular age, low-discretion environments may exert informal, normative pressure to do so. Therefore, low-discretion environments will tend to be associated with greater homogeneity in CEO entry and exit ages than high-discretion environments.

In addition, as there will be fewer purely performance-based reasons to retain an incumbent CEO for an extended period, internal and external observers will implicitly recognize that unexpectedly high or low firm performance is less attributable to the actions of a given executive. If this is true, and if the office of the CEO is in part a reward for long company service and seniority, there will typically be a larger pool of equivalently qualified candidates for the position. More potential CEO candidates, with fewer counter-balancing reasons for extending CEO tenure, will tend to result in more programmatic, ritualized succession and departure. An implicit understanding of the greater symbolic nature of the CEO role may even result in less resistance from the incumbent him or herself regarding departure. In contrast, CEOs (and stakeholders in general) in high-discretion settings are less likely to see the office as

simply a prestigious conclusion to a career, and more likely to view their position as a substantive endorsement of their own (ongoing) strategic decision making capabilities. Furthermore, in situations of strong firm performance, the incumbent CEO may feel considerable normative pressure to actually remain in office, perhaps even beyond his or her preferred retirement date (e.g. Bowe & Edgecliffe-Johnson, 2000). Thus, CEOs in low-discretion national environments will tend to enter office at more homogeneous ages, remain in office for more consistent lengths of time, and depart at more homogeneous ages. In contrast, CEOs in high-discretion environments will show greater heterogeneity in entry age, exit age, and tenure.

Hypothesis 3a (H3a): The greater the level of managerial discretion in a society, the greater the heterogeneity in CEO entry age.

Hypothesis 3b (H3b): The greater the level of managerial discretion in a society, the greater the heterogeneity in CEO exit age.

Hypothesis 3c (H3c): The greater the level of managerial discretion in a society, the greater the heterogeneity in CEO tenure.

Note that there is not a parallel structure between Hypotheses 2 and 3. In other words, while I hypothesize that discretion will affect *heterogeneity* of CEO entry age (H3a), exit age (H3b), and tenure (H3c), I only hypothesize an impact of discretion on *magnitude* of CEO entry age (H2). This is because I do not believe there is any reasonable theoretical reason to expect that discretion will affect either the age at which CEOs exit the role, or their length of time in the role, beyond the impact of discretion on entry age itself. However, for the sake of completeness, I will examine these relationships in a supplementary analysis.

5.2. Methods

5.2.1. Sample

I used the same sample of 827 firms from 23 countries as described above in Chapter 4.2.1. My sample frame consisted of the five-year period between September 2001 and August 2006 inclusive. I also used the national-level managerial discretion scores as discussed previously.

5.2.2. CEO-level Variables

For each of the 827 firms, I collected data on every CEO that was in office at any point in time during the five years of the sample period (to reduce the chance of including interim CEOs, I only included those CEOs who remained in office for at least six months). I excluded those CEOs who died in office. This resulted in a total of 1380 CEOs. Of these 1380 CEOs: a) 445 were in office prior to September 2001 and were still in office after August 2006, b) 539 departed between September 2001 and August 2006 (i.e. within the sample frame), and c) 508 entered office after September 2001⁹. For the 539 CEOs that departed during the sample period, I determined the month and year of departure.

For each CEO (at the individual level), I collected data on *age at entry*, *age at exit* (if applicable), and *CEO tenure*. As CEO tenure was heavily right-skewed, I instead used the natural log of CEO tenure. I then calculated the country-level means and standard deviations for age at entry, age at exit, and CEO tenure. To generate the country-level variables *heterogeneity of CEO entry age*, *heterogeneity of CEO exit age*, and *heterogeneity of CEO tenure*, I used the coefficient of variation (standard deviation divided by mean, multiplied by 100) (Beckman &

⁹ 112 CEOs both entered office and departed within the sample frame.

Haunschild, 2002). All CEO-level data were taken from annual reports, regulatory filings, press releases, company websites, news media, and country-specific databases. See Tables 11 and 12 for national-level data on CEO entry age and heterogeneity of CEO entry age, CEO exit age, and CEO tenure.

Tables 11 and 12 about here

5.2.3. Firm-level and Industry-level Variables

I collected 2001-2006 annual data for several other firm-level control variables: *sales*, *total assets*, *market capitalization*, *employees*, *firm performance* (return on assets), and *closely-held shares*. The four measures of firm size were highly inter-correlated ($0.37 \leq r \leq 0.79$, $p < .01$; Cronbach's alpha = 0.85) so I constructed a *firm size index* by converting: 1) logged sales, 2) logged assets, 3) logged market capitalization, and 4) logged employees into z-scores, then summing these. I also collected data on *ownership concentration* (percentage of shares held by the largest shareholder) for each firm in the 2005 financial year. Full ownership concentration data were not available for prior years and so this variable was treated as a firm-level variable. Finally, each firm was assigned to one of 27 industry sectors, as per its designation in the Forbes Global 2000 database (see Table 1).

5.2.4. Firm Internationalization

I also controlled for annual (2001-2006) firm internationalization. To measure internationalization, I constructed an index using two variables: *foreign sales to total sales (FSTS)*, and *foreign assets to total assets (FATA)*. The use of multiple measures of firm internationalization is consistent with calls for greater construct validity in this research domain

and addresses both performance-based and structural attributes of internationalization (Sullivan, 1994). These variables have been widely used in prior studies of firm internationalization (e.g. Daniels & Bracker, 1989). FSTS and FATA were strongly correlated ($r = .56, p < .01$; Cronbach's alpha = 0.70), so I constructed a *firm internationalization index* by converting each of these two variables into z-scores and then summing them. The distribution of the firm internationalization index (similar to the underlying FSTS and FATA measures) was heavily right-skewed. This was due to the significant proportion of firm-years in the sample (approximately 30%) in which FSTS and FATA were zero or less than one percent. Therefore, I dichotomized the firm internationalization index at its median point, creating a 0/1 binary variable¹⁰.

5.2.5. Country-level Variables

I gathered annual data for 2001-2006 for several national-level control variables: *gross domestic product*, *listed domestic firms*, *size of listed firms*, and *unemployment*. The two measures of market development (listed domestic firms and size of listed firms) were highly correlated ($r = .81, p < .01$; Cronbach's alpha = 0.90) so I constructed a *market development index* by converting these two variables into z-scores, then summing them. Again, see Table 6 for a summary of all variables.

5.2.6. Analysis

Due to the clustering of CEOs within firms, I tested the impact of national-level discretion on CEO entry age using random-effects generalized least squares (GLS) regression. As discussed above, the five-year sample (September 2001 to August 2006 inclusive) contained

¹⁰ Results did not change significantly when I used the original continuous distribution of firm internationalization.

a total of 508 CEOs who entered office during the sample frame. Therefore (due to the availability of control variables), I used this sub-sample of 508 CEOs to test Hypothesis 2.

Hypotheses 3a, 3b, and 3c concern the impact of discretion on heterogeneity of several CEO characteristics. Therefore, these relationships must be tested at the national level of analysis. As depicted in Tables 11 and 12, however, countries varied widely in the number of CEOs used to construct country-level heterogeneity scores. So, similar to the methodology described in Chapter 4.2.4. concerning CEO effects, I estimated the discretion-heterogeneity relationships using weighted least squares regression. I modeled these relationships by minimizing the weighted sum of squares (WSS), where WSS is equivalent to $\sum_{i=1}^n \omega_i (y_i - X_i\beta)^2$; and ω_i is the number of CEOs per country used to construct the heterogeneity scores (cf. Gelman & Hill, 2007: 389).

5.3. Results

Table 13 reports descriptive statistics and bivariate correlations for the variables used in this Chapter. Recall that Hypothesis 2 argued that managerial discretion would be negatively related to CEO entry age. As can be seen in model 1b of Table 14, discretion was indeed significantly and negatively related to CEO age at entry ($B = -4.41, p < .01$), supporting H2. Note that Table 14 also contains analyses related to the moderating impact of firm internationalization. As mentioned in Chapter 4, these will not be discussed at this point, but will instead be comprehensively addressed in Chapter 7.

I completed two further tests of the discretion-CEO entry age hypothesis. First, I increased the number of CEOs in the analysis. Model 1b in Table 14 includes only those CEOs who entered office during the sample period (September 2001 to August 2006), due to the

availability of control variables during this time. I also tested the impact of discretion on CEO entry age for all CEOs in the sample ($n = 1380$). Managerial discretion was also a negative and significant predictor of CEO entry age in this model ($\beta = -3.62, p < .01$). Second, I examined the discretion-CEO entry age relationship at the national (or ecological) level. While model 1b included each CEO from each country ($n = 508$), I also investigated whether the relationship between discretion and entry age persisted at the national level ($n = 23$). To examine this, I measured the correlation between median CEO age at entry (by country) and managerial discretion. A plot of this relationship is shown in Figure 4. This country-level relationship was also negative and significant ($r = -.43, p < .05$). Thus, Hypothesis 2 received strong support.

Figure 4 and Tables 13 and 14 about here

Hypotheses 3a, 3b, and 3c argued that managerial discretion would be positively associated with heterogeneity of CEO entry age, CEO exit age, and CEO tenure, respectively. Tables 11 and 12 show heterogeneity of entry age, exit age, and tenure for each country, as well as the number of CEOs used to calculate these values. Note that these analyses of heterogeneity rely on a national-level sample of 22 countries, not 23, as there are only 2 CEOs from Denmark in the sample, therefore coefficient of variation (standard deviation, specifically) is not a meaningful statistic for Denmark. Model 1a in Table 15 shows that discretion was positively and significantly associated with CEO entry age heterogeneity ($\beta = 2.47, p < .05$). This provides support for Hypothesis 3a. Figure 5 depicts a plot of this relationship. In addition, Model 2a shows that discretion was marginally significantly related to CEO exit age heterogeneity ($\beta = 1.23, p < .1$). This provides some support for Hypothesis 3b. However, although the beta

coefficient for heterogeneity of CEO tenure ($\beta = 0.90$, ns) was positive, it was not significant. Thus, there was no support for Hypothesis 3c.

Table 15 and Figure 5 about here

I also completed a supplementary analysis to examine the impact of discretion on the magnitude of CEO exit age and CEO tenure. To perform this analysis, I used the sub-sample of 539 CEOs that left office during the five-year sample frame, and the same group of control variables that were used to test the discretion-CEO entry age relationship. In addition, I controlled for CEO entry age. I found that discretion was negatively and significantly related to the magnitude of CEO exit age ($\beta = -1.59$, $p < .01$) and also negatively and significantly related to the magnitude of CEO tenure ($\beta = -0.22$, $p < .01$).

5.4. Summary

In this Chapter of the dissertation, I argued that high-discretion national environments would be associated with: 1) younger CEO entry ages, and 2) more heterogeneous CEO entry ages, CEO exit ages, and CEO tenures. I found support for my prediction concerning the impact of discretion on entry age. I also found support for the ideas that CEO entry age and CEO exit age would be more heterogeneous in high-discretion than in low-discretion environments. However, there was no support for my argument that CEO tenure would be more heterogeneous in high-discretion environments. In the next Chapter, I will examine how national-level managerial discretion might moderate the impact of poor firm performance on the likelihood of CEO departure.

Chapter 6

MANAGERIAL DISCRETION AND FIRM PERFORMANCE-CEO DEPARTURE SENSITIVITY

6.1. Theory and Hypotheses

The replacement of a firm's chief executive officer has been an event of importance to organizational researchers for many years. CEO departure can not only help to illustrate the character and characteristics of individual executives, but can also provide a window through which to view the inner workings of a firm, industry, region, or even a country. However, while several studies have begun to investigate CEO departure in non-U.S. settings (e.g. Abe, 1997; Kang & Shivdasani, 1995; Kaplan, 1994a, 1994b), almost all of these studies have focused on single countries or country pairs, thus making it difficult to generate broader cross-national conclusions.

The most consistent finding in the literature on executive succession is that CEO departure is negatively related to firm performance (e.g. Boeker, 1992). Firm performance *per se*, however, only explains 10-20% of variance in executive succession (Finkelstein & Hambrick, 1996), so there are clearly other factors at work, such as performance expectations (Puffer & Weintrop, 1991), entrenchment (McEachern, 1977), firm size (Grusky, 1961), top management team demography (Wagner, Pfeffer, & O'Reilly, 1984), board-related factors (Zajac & Westphal, 1996), and, perhaps, managerial discretion.

CEOs from low-discretion environments will have a weaker influence over the actions and outcomes of their firms (Hambrick & Finkelstein, 1987). These CEOs will have a smaller range of strategic choices from which to select, narrower scope in terms of the implementation of

those decisions, and less freedom to curtail or augment previously implemented actions. This reduced latitude of action means that firm-level actions taken by a given CEO are more likely to be similar to other actions: 1) taken previously within his or her tenure, 2) taken by previous CEOs within the firm, and 3) taken by other CEOs within the same industry or sector.

Attribution theory (e.g. Tetlock, 1985) suggests that one implication of this reduced latitude of action is that low-discretion CEOs will be, and will be perceived to be, less responsible for the eventual performance outcomes of their firms (cf. Finkelstein & Hambrick, 1988). Attribution theory is concerned with how individuals build causal explanations of the behavior of others (Heider, 1958; Kelley, 1973). Broadly, attributions can be classified as internal, where outcomes are seen as a function of an individual's characteristics, or external, where outcomes are seen as a function of environmental or situational phenomena (Kelley & Michela, 1980). Two of the most central findings of attribution theory are that: 1) individuals tend to take credit for positive outcomes and blame negative outcomes on environmental phenomena (e.g. Greenberg, Pyszczynski, & Solomon, 1982), and 2) individuals tend to over-attribute outcomes in general to internal factors and under-attribute outcomes to external factors (e.g. Tetlock, 1985). The latter of these two themes, more commonly known as the fundamental attribution error, is of particular relevance to the consequences of national-level executive discretion. Also of relevance is work concerning the attribution theory of leadership (Calder, 1977), which holds that the process of leadership is a result of associating organizational phenomena with particular individuals.

Building on research that suggests there may actually be considerable cross-national variance in the degree to which the fundamental attribution error operates (Harvey, Town, & Larkin, 1981; Krull et al., 1999), I argue that individuals embedded in low-discretion societies

will tend to correctly perceive that corporate leaders play a more symbolic role and have a relatively lower substantive influence over firm outcomes. Thus, individuals from low-discretion societies will tend to have relatively weaker internal attributions regarding corporate outcomes and relatively stronger external attributions. Low-discretion societies will also be less likely to attribute more salient corporate events to individuals instead of the environment (Meindl, Ehrlich, & Dukerich's (1985) "romance of leadership"). In contrast, consistent with their embeddedness within a society where institutions permit a greater scope of idiosyncratic executive actions, individuals from high-discretion societies will tend to be more characterized by beliefs in the relatively unconstrained discretion of executives. Accordingly, high-discretion CEOs will be rewarded more strongly than low-discretion CEOs for good firm performance and censured more strongly for poor firm performance. As the most severe form of CEO censure is departure, the relationship between poor firm performance and CEO turnover (Boeker, 1992) should be markedly stronger in high-discretion environments.

Hypothesis 4 (H4): Poor firm performance will be positively related to the likelihood of CEO departure.

Hypothesis 5 (H5): The level of managerial discretion in a society will positively moderate the relationship between poor firm performance and the likelihood of CEO departure.

6.2. Methods

6.2.1. Sample

I used the five-year (September 2001 to August 2006) sample of 827 firms from 23 countries as described above in Chapter 5.2.1. The total sample frame consists of 4073 firm-years. As discussed previously, there were a total of 539 CEO departures during this period.

6.2.2. Firm Performance

I used three different measures of firm performance: *return on assets* (ROA), *market-to-book* (MTB), and a binary *negative net income* variable, which was assigned a value of 1 when a firm generated a negative net income in a particular firm-year and 0 otherwise. As the firm performance-CEO departure sensitivity hypotheses focus specifically on the impact of poor firm performance, rather than all firm performance (cf. Boeker, 1992), and to help to ameliorate some of the difficulties that arise in comparing a particular financial measure across different national environments, I generated binary *bottom-quartile ROA* and *bottom-quartile MTB* variables. These variables were assigned a value of 1 when return on assets or market-to-book for a particular firm-year was in the bottom 25% of its global industry¹¹. I also generated a binary (1/0) *combined poor performance* variable, which was assigned a value of 1 when a firm performed in the bottom 25% of its industry for ROA and MTB, and the firm reported a negative net income.

6.2.3. Other Firm-level and Country-level Variables

I used the same annual (2001-2006) firm-level and country-level control variables for each model as described in Chapter 5.2.: *firm size index*, *firm internationalization index*, *closely-held shares*, *ownership concentration*, *gross domestic product*, *market development index*, and *unemployment*. I also controlled for the age of each CEO (in years) at the beginning of each firm-year¹².

¹¹ Results were unchanged when I substituted the bottom 10% or the bottom 33% of a firm's global industry.

¹² Results were unchanged when I substituted CEO tenure for CEO age.

6.2.4. Analysis

To test the effect of national-level discretion on the relationship between firm performance and CEO turnover, I used event history analysis. Cox regression is the most widely used technique for analyzing the duration to an event, and is particularly useful when covariates (e.g. firm performance) vary over time (Arthaud-Day, Certo, Dalto, & Dalton, 2006; Box-Steffensmeier & Jones, 2004). Cox regression analysis is also useful when trying to determine how the duration to an event varies as a function of several sub-populations (e.g. high- vs. low-discretion environments). Thus, annual firm performance was coded as a time-varying covariate predicting likelihood of CEO departure, with managerial discretion scores (from the academic panel) acting as a moderator. To ensure that the Cox regression models adhered to the proportional hazards assumption, I ran a Schoenfeld residuals significance test for each model (Cleves, Gould, & Gutierrez, 2004: 178). This test was not significant ($p \geq .05$) for any model.

6.3. Results

Table 16 reports descriptive statistics and bivariate correlations for the variables used in this Chapter. Consistent with a large body of prior research in this area (e.g. Boeker, 1992), Hypothesis 4 argued that poor firm performance would be associated with an increased likelihood of CEO departure. Tables 17-20 contain results from four Cox regression tests of this hypothesis using four different firm performance variables. Note that all coefficients reported in Tables 17-20 are odds ratios. Therefore, a coefficient greater than 1.0 signifies an increase in the likelihood of the dependent variable (in this case, CEO departure), while a coefficient less than 1.0 signifies a decrease in the likelihood of the dependent variable. For example, Model 1a in

Table 17 shows that CEO age is associated with a significant odds ratio of 1.09. This means that for every extra year of CEO age, there was a 9% increase in the likelihood of CEO departure.

Tables 16, 17, 18, 19, and 20 about here

Hypothesis 4 argued that poor firm performance would be associated with a significant increase in the likelihood of CEO departure. Consistent with this prediction, Model 1a in each of Tables 17, 18, 19, and 20 shows that there was a main effect of poor performance on the likelihood of CEO departure across the entire sample of firms¹³. For example, Table 17 shows that, compared to CEOs of firms performing in the top three quartiles of industry ROA, CEOs of firms performing in the bottom quartile of ROA were 27% more likely to depart ($p < .05$). There was a similar result for bottom-quartile MTB performance (odds ratio = 1.26, $p < .05$). Even more strikingly, model 1a in Table 19 shows that CEOs whose firms reported a negative net income were 101% more likely to depart than CEOs whose firms reported a positive net income ($p < .01$). Finally, Table 20 shows that combined poor performance (firms achieving a bottom-quartile ROA, a bottom-quartile MTB, and a negative net income) was associated with an 82% increase in the likelihood of departure ($p < .01$). Therefore, Hypothesis 4 received strong support.

But did this impact of poor performance on likelihood of CEO departure differ as a function of national-level managerial discretion, as argued in Hypothesis 5? Model 1b in Table 17 shows that the answer is yes for ROA, as the interaction of managerial discretion and bottom-quartile ROA produced a coefficient that was significant ($p < .05$) and greater than 1.0. This coefficient of 1.32 indicates that, compared to firms with a national-level discretion score of, say

¹³ Similar to Chapters 4 and 5, note that Tables 17-20 also contain analyses related to the moderating impact of firm internationalization. As discussed previously, these analyses will be addressed in full in Chapter 7.

4.0, CEOs from firms with a national-level discretion score of 5.0 were 32% more likely to depart. Furthermore, CEOs from firms with a national-level discretion score of 6.0 were 64% more likely to depart. Similarly, model 1b in Table 18 indicates that the interaction of managerial discretion and bottom-quartile MTB produced an odds ratio of 1.29, which is also greater than 1.0 and marginally significant ($p < .1$). However, while the odds ratio of 1.22 for the interaction of managerial discretion and negative net income was positive, this coefficient was not significant.

Finally, we see that the interaction of managerial discretion and combined poor performance produced an odds ratio that was greater than 1.0 and significant ($p < .01$). This odds ratio of 1.80 indicates that, for those firms achieving combined poor performance, CEOs of firms with national-level discretion scores of 6.0 were fully 160% more likely to depart than CEOs of firms with national-level discretion scores of 4.0. This relationship is depicted in Figure 6. The dashed line in Figure 6 indicates the impact of combined poor performance for the entire sample. The two solid lines indicate the relationship between combined poor performance and CEO departure likelihood at managerial discretion scores of 4.0 and 6.0. Therefore, across a number of different performance variables, there was moderate-to-strong support for Hypothesis 5.

Figure 6 about here

6.4. Summary

In this Chapter of the dissertation, I looked at two components of the firm performance-CEO departure relationship. First, I argued that poor firm performance would be associated with a significant increase in the likelihood of CEO departure. Similar to a range of studies in this

area (e.g. Boeker, 1992), I found support for this prediction. Second, I hypothesized that national-level managerial discretion would positively moderate the relationship between poor firm performance and departure. In other words, I argued that poor firm performance would be much more likely to lead to CEO departure in high-discretion than in low-discretion environments. Across both accounting-based and market-based firm performance variables, I found moderate-to-strong support for this hypothesis. In the next Chapter, I will examine how firm-level internationalization may moderate some of the direct relationships hypothesized in Chapters 4, 5, and 6.

Chapter 7

THE MODERATING IMPACT OF FIRM INTERNATIONALIZATION

7.1. Theory and Hypotheses

To this point, I have focused only on the direct effects of national-level managerial discretion. I now discuss an important firm-level moderator that may affect the tightness of the links between managerial discretion and the consequences discussed above. While the majority of research in the area of firm internationalization focuses on the direct impact of this variable on firm-level outcomes (e.g. Sanders & Carpenter, 1998), I argue that a firm's level of internationalization will also have a moderating, or weakening, effect on the impact of national-level discretion on CEO effects, CEO characteristics, and firm performance-CEO departure sensitivity.

A firm is internationalized to the extent to which its resources, capabilities, attention, and performance are focused on non-domestic rather than domestic markets (cf. Sullivan, 1994). Firms may operate internationally to reduce costs, increase revenues, or both (Mudambi & Navarra, 2004). A firm's level of internationalization will therefore be driven by a range of factors, including age, size, industry, and top management team experience (Daily, Certo, & Dalton, 2000).

Much has been written about the process of firm internationalization (e.g. Andersen, 1993). While firms tend to have a wide scope in deciding which foreign markets to enter, as well as the order of entry (Andersson, 2004), the process of internationalization often follows a familiar path. Via gradually increasing investments of time and resources, firms acquire, integrate, and use knowledge about foreign markets and operations (Johanson & Vahlne, 1977).

Through a series of incremental decisions (cf. Cyert & March, 1963), market knowledge increases and a firm progressively increases its economic scope in a market. This process of non-domestic learning also involves an increasing understanding of the need to adapt to foreign institutions, particularly when there is considerable psychic distance between domestic and non-domestic environments (Kogut & Singh, 1988). Firm internationalization, therefore, is often associated with significant organizational learning (Ruigrok & Wagner, 2003). Thus, subsidiaries operating in non-domestic environments, while still heavily influenced by home-country formal rules and informal norms, will be increasingly constrained by non-domestic institutions.

At the national level, large firms headquartered in countries such as the Netherlands or Finland are more likely to have a relatively strong non-domestic presence than may be the case in larger, more internally-oriented economies, such as the United States and Japan. This will be partly driven by the size of the national economy in a firm's home country. All else equal, the smaller a country's economy, and the fewer the number of firms operating within it, the greater the proportion of a firm's total business that will be conducted with non-domestic firms. Thus, firms operating within smaller economies, such as Ireland's small open economy (Norton, 1994), will be more influenced by non-domestic practices, and, therefore, practices that are less influenced by domestic institutions.

Whether considered in terms of foreign sales, foreign assets, geographic subsidiary spread, psychic attention, or some other measure, firms with a strong international presence will tend to be more strongly influenced by the discretion constraints and enablers of multiple national environments. These firms, through their non-domestic operations, will be influenced by a wider range of informal and formal national institutions than their wholly domestic

counterparts. In contrast, firms with an exclusive or near-exclusive presence in their home countries will be more fully subject to domestic institutions and thus domestic levels of discretion. Therefore, I argue that firm-level internationalization will weaken (i.e. negatively moderate positive relationships and positively moderate negative relationships) all the hypothesized direct effects of national-level discretion.

Hypothesis 6 (H6): Firm internationalization will negatively moderate the relationship between managerial discretion and CEO effects.

Hypothesis 7 (H7): Firm internationalization will positively moderate the relationship between managerial discretion and CEO entry age.

Hypothesis 8a (H8a): Firm internationalization will negatively moderate the relationship between managerial discretion and heterogeneity of CEO entry age.

Hypothesis 8b (H8b): Firm internationalization will negatively moderate the relationship between managerial discretion and heterogeneity of CEO exit age.

Hypothesis 8c (H8c): Firm internationalization will negatively moderate the relationship between managerial discretion and heterogeneity of CEO tenure.

Hypothesis 9 (H9): Firm internationalization will weaken (negatively moderate) the moderating impact of managerial discretion on the firm performance-CEO departure relationship.

7.2. Methods

To test each of the hypotheses concerning firm internationalization, I used the same sample, control variables, and analyses that I used to test the relevant direct effect of managerial discretion (see Chapters 4.2., 5.2., and 6.2. for details). For each analysis, I created the interaction of managerial discretion and firm internationalization by simply multiplying the two variables. Note that, for those hypotheses (H6, H8a-8c) which I tested at a national level using weighted least squares regression, I aggregated firm internationalization to the national level by taking the mean of all a country's firm-years in the sample.

7.3. Results

Hypotheses 6 through 9 are all concerned with the idea that the impact of national-level managerial discretion on a range of outcome variables – CEO effects, CEO characteristics, and firm performance-CEO departure sensitivity – will be attenuated or weakened by the extent to which firms in a given country are internationalized. In those countries where firms mostly operate in, and are oriented toward, domestic markets, there will be a stronger impact of national-level managerial discretion. Alternatively, in those countries where firms are focused heavily on non-domestic markets, the impact of national-level discretion will be less pronounced.

7.3.1. CEO Effects

Hypothesis 6 argued that firm-level internationalization would weaken, or negatively moderate, the relationship between managerial discretion and the magnitude of firm performance variance attributable to CEO-level factors. The results of this hypothesis test are shown in Table 8. As can be seen in Model 3b, firm internationalization negatively and significantly moderated the discretion-CEO effect (magnitude) relationship ($\beta = -114.80, p < .05$) for ROS. However, results for all other performance variables were non-significant. Thus, I find minimal support for Hypothesis 6. Similarly, models 1b, 2b, 3b, 4b, and 5b in Table 10 show that firm internationalization did not have a significant moderating impact on the managerial discretion-CEO effect (proportion) relationship.

7.3.2. CEO Characteristics

Hypothesis 7 argued that firm internationalization would weaken, or positively moderate, the discretion-CEO entry age relationship. Model 1c in Table 14 shows that the interaction of

managerial discretion and firm internationalization was positive but not significant ($\beta = 1.42$, ns). Hypotheses 8a, 8b, and 8c argued that firm internationalization would negatively moderate the relationships between discretion and heterogeneity of CEO entry age, CEO exit age, and CEO tenure, respectively. Models 1b, 2b, and 3b in Table 15 show that there was no support for these Hypotheses.

7.3.3. Firm Performance-CEO Departure Sensitivity

Finally, Hypothesis 9 argued for a second-order interaction, in that firm internationalization would weaken (negatively moderate) the positive moderating impact of managerial discretion on the firm performance-CEO departure relationship. Model 1c in each of Tables 17, 18, 19, and 20 shows that there was no support for this Hypothesis using any of the four performance variables (ROA, MTB, negative net income, and combined poor performance).

7.4. Summary

In this Chapter of the dissertation, I hypothesized that the relationships between national-level managerial discretion and CEO effects, CEO characteristics, and firm performance-CEO departure sensitivity would be weakened by firm-level internationalization. Although there was a small amount of evidence that the impact of discretion on CEO effects (in particular for return on sales) was weakened by firm internationalization, there was no other support for this idea. In the next Chapter, I will present an exploratory investigation into whether the impact of managerial discretion may have changed over time.

Chapter 8

EXPLORATORY ANALYSIS: CHANGES OVER TIME

8.1. Theoretical Discussion

One further issue that must be addressed in any discussion of national-level phenomena is the stability or changeability of those phenomena within the context of powerful homogenizing pressures from the global economy. The process of globalization has been associated with a vast increase in geographic awareness, international information flows, and product-market expansion (Guillen, 2001). But has all this change influenced the constraints on CEOs and the outcomes of those constraints?

Much of the research concerned with cross-national business phenomena can be classified into two broad categories. First, what might be called international business research – that which explores what happens when business crosses national borders (cf. Robock, 2005). Many of the authors within this strand of research approach this issue from the perspective of change and tumult; how cross-national business flows are being fundamentally altered and the extent to which the global economy is beginning to reflect economic convergence and homogenization (e.g. Ritzer, 2004). In contrast, a second group of researchers approach this topic from the perspective of consistency. These authors argue that, in the face of mounting socio-economic turmoil, nation-states actually change their fundamental internal structures glacially, if at all (e.g. Hall & Soskice, 2001). Accordingly, a considerable research stream addresses just this question, with strong arguments supporting both institutional convergence (Hansmann & Kraakmann, 2001) and persistence (Bebchuk & Roe, 1999), as well as various intermediate positions (Khanna, Kogan, & Palepu, 2006).

In the context of my dissertation, this relates to several important questions. First, has national-level managerial discretion changed over time in absolute terms? For example, do U.S. CEOs have similar levels of discretion now compared to ten, twenty, or thirty years ago? Although it makes no such prediction specifically, technology theory (Teece, Rumelt, Dosi, & Winter, 1994) might tend to suggest that increased globalization would lead to a decrease in decision making latitude. As international information flows increase and managers in US companies become gradually more aware of the optimal technology used in an industry internationally, a manager's options in terms of strategic decisions would become more limited. However, Hambrick, Finkelstein, Cho, & Jackson (2005) suggest just the opposite. These authors argue that a range of macrosocial, organizational field-level factors have developed such that industries and organizations are becoming less, not more, homogeneous over time.

Second, has discretion changed in relative terms? For example, have cross-national differences in discretion (say, between German and Japanese CEOs) increased, decreased, or remained constant over time? Have institutions changed at different rates in different countries over the last several decades, such that relative levels of discretion have altered?

Finally, has the impact of discretion on various outcomes (e.g. CEO characteristics) changed over time? For example, does discretion have a stronger impact on the performance-departure relationship now than twenty years ago?

While I will address these questions in this section of the dissertation, I will do so in the form of an exploratory analysis, and will not offer testable hypotheses. There are two main reasons for this. First, to appropriately address questions concerning changes in discretion over time, it is essential to have valid, reliable measurements of national-level discretion at multiple points in time. Although my research design allows me to measure current levels of discretion

(see Chapter 4.2.1.), I am only able to measure the hypothesized outcomes of discretion (CEO effects, CEO characteristics, and firm performance-CEO departure sensitivity) at multiple points in time. Second, due to difficulties inherent in collecting large quantities of cross-national data over an extended period of time, I will focus on time-based changes in only three countries: Germany, Japan, and the United States. Thus, while my analyses will offer some initial insights into discretion-related changes over time, my longitudinal sample will not allow me to generalize these tentative findings beyond these three countries.

In my supplementary analysis of discretion-related changes over time, I will examine two elements of the impact of time. For each category of dependent variable (e.g. CEO entry age), I will first examine whether these hypothesized outcomes of discretion have themselves changed over time (e.g. are CEOs currently entering office at younger ages than they were in previous time periods?). I will then assume that discretion has remained constant over time and will investigate whether the impact of discretion on each category of dependent variables has changed over time (e.g. is the relationship between discretion and CEO entry age different now compared to what it was in previous time periods?).

8.2. Methods

In order to conduct an exploratory analysis on the impact of time, I extended the sample frame to fifteen years (September 1991 to August 2006 inclusive) for three of the countries from my original sample – Germany (56 firms), Japan (100 firms), and the United States (100 firms). Similar to the procedure I used for the original five-year sample, for each of these 256 firms I gathered data on every CEO who was in office for at least six months during this 15-year period. This resulted in a total of 650 CEOs. Of these 650 CEOs: a) 23 were in office prior to

September 1991 and were still in office after August 2006, b) 427 departed between September 1991 and August 2006, and c) 444 entered office after September 1991¹⁴. For each of the three dependent variable categories (CEO effects, CEO characteristics, and firm performance-CEO departure sensitivity), I employed similar analyses as those used to test the direct effects of managerial discretion in the five-year sample.

8.3. Results

8.3.1. CEO Effects

I focused on the impact of time on the managerial discretion-CEO effect (magnitude) relationship, due to the evidence supporting this main effect across the original five-year sample (Hypothesis 1). Table 21 shows the magnitude of performance variance attributable to CEO-level factors for each country in the longitudinal sample, broken down by firm performance variable. For each country, I first calculated the CEO effect for the entire 15-year sample. Consistent with the results from the five-year sample, and each country's managerial discretion score, I found strong evidence that the U.S. CEO effect was greater than the German CEO effect, which was greater than the Japanese CEO effect. Only one performance variable did not follow this 1-2-3 pattern (for ROA, the U.S. CEO effect was 4.65, while the German CEO effect was slightly greater at 4.66¹⁵). Figure 7 depicts this relationship across multiple (standardized) performance variables.

¹⁴ 244 CEOs both entered office and departed within the sample frame.

¹⁵ Similar to the figures reported in Table 9, the CEO effect as discussed here is equivalent to the magnitude of ROA variance attributable to CEO-level factors, as calculated by the hierarchical linear modeling procedure discussed in detail in Chapter 4.2.4.

Table 21 and Figure 7 about here

I then calculated the CEO effect for German, Japanese, and U.S. firms, for each of the three five-year periods within the longitudinal sample (see Table 21). Figure 8 provides a visual depiction of the change in CEO effect over time across the three countries. Although this Figure should be interpreted with caution, based on the relatively small sample sizes used to construct the CEO effect estimates, there is some initial evidence that, for four of the five performance variables (ROA, ROIC, ROS, and MTB), the U.S. CEO effect appears to have increased more rapidly than the German and Japanese CEO effects from the 1997-2001 time period to the 2002-2006 time period. This may indicate that either: 1) U.S. levels of managerial discretion have increased relative to German and Japanese discretion levels, or 2) the impact of discretion itself has increased.

Figure 8 about here

8.3.2. CEO Characteristics

I then examined how the impact of managerial discretion on CEO characteristics has changed over time. Table 22 contains descriptive data showing CEO entry age and heterogeneity of CEO entry age, exit age, and tenure in the longitudinal sample. As can be seen, for the entire longitudinal sample, U.S. CEOs tended to be younger and more heterogeneous in entry age, exit age, and tenure than their German and Japanese counterparts. Table 23 contains analyses of the impact of time on the discretion-CEO entry age relationship. In this analysis, time was operationalized as a binary variable, with years from 2000 to 2006 given a value of 1 and earlier years given a value of 0. Model 1b in Table 23 indicates that there was no main

effect of the recent time period (i.e. across the sample, CEO entry age was not significantly different between 1992-1999 and 2000-2006). Model 1c, though, indicates that the interaction between discretion and the recent time period was negative and significant ($\beta = -1.32, p < .05$). If national-level discretion has indeed remained similar over the last 15 years, this indicates that the impact of discretion on CEO entry age has become stronger over time. Alternatively, this may indicate that the gap in discretion between the U.S., Germany, and Japan has increased in last 15 years.

Tables 22 and 23 about here

Moving now to heterogeneity, Figure 9 illustrates the change in CEO entry, exit, and tenure heterogeneity over time across the three countries. Once again, although the relatively small sample sizes used to generate these Figures must make their interpretation tentative, there do not appear to be any consistent cross-national patterns across these three outcome variables.

Figure 9 about here

8.3.3. Firm Performance-CEO Departure Sensitivity

I examined three elements of the firm performance-CEO departure relationship, with respect to time: 1) whether the baseline likelihood of CEO departure had changed over time, 2) whether time and performance interacted significantly in predicting CEO departure, and 3) whether time affected the moderating impact of discretion on the performance-departure relationship.

First, has the rate of CEO departure changed over time? The answer appears to be yes, as can be seen in Model 1a in Tables 24-27. After accounting for firm performance and other

control variables, CEOs operating in the years 2000-2006 were approximately 30% more likely to depart than CEOs operating from 1992-1999. Second, there was weak evidence of a significant time-performance interaction. Model 1b in Table 26 indicates that CEOs of firms achieving a negative net income were significantly more likely to depart in the more recent time period (2000-2006) than in the earlier time period (odds ratio = 1.82, $p < .05$). However, this was not the case for the other three performance variables.

Tables 24, 25, 26, and 27 about here

Finally, did the impact of discretion on the performance-departure relationship change over time? There is weak-to-moderate support for this second-order interaction. Model 1d in Table 26 indicates that the three-way interaction between managerial discretion, negative net income, and the recent time period was positive and significant (odds ratio = 1.72, $p < .05$). The equivalent interaction for combined poor performance was positive and marginally significant (odds ratio = 3.53, $p < .1$). This means that the moderating impact of discretion on the performance-departure relationship was significantly stronger in 2000-2006 than in the earlier time period. Similar to the findings discussed above, this could be interpreted to indicate that the impact of discretion has increased over time, or that discretion differences themselves have become more pronounced. See Table 28 for a summary of all hypotheses and whether each was supported or not.

Table 28 about here

8.4. Summary

In this Chapter, I conducted an exploratory analysis investigating whether the impact of managerial discretion on CEO effects, CEO characteristics, and firm performance-CEO departure sensitivity may have changed over time. I used a three-country (Germany, Japan, and the U.S.), fifteen-year (1991-2006) sample. This analysis produced two main findings. First, across the three countries, CEO effects and CEO characteristics do not appear to have changed significantly over time. However, the rate of CEO departure has significantly increased over time. Second, there is some suggestion that the impact of discretion on CEO effects, CEO characteristics and firm performance-CEO departure sensitivity has increased over time. Due to the small number of countries analyzed in this supplementary analysis, though, these findings must be interpreted with caution.

Chapter 9

DISCUSSION AND CONCLUSION

This dissertation was driven by several research questions. The first of these asked whether managerial discretion differed across countries. To answer this question, I first discussed why the construct of managerial discretion, which had only been considered at firm- and industry-levels up to this point, could legitimately be explored at the national level. I then empirically examined this question through the use of an academic panel with expertise in cross-national business. Results from a questionnaire completed by this panel indicate that national-level managerial discretion is a reliable construct and that discretion does indeed vary systematically across countries. Broadly, I found that Anglo-American societies (such as Canada, U.K., and U.S.) tended to be higher-discretion environments than, in order, Western European societies (such as France, Germany, and Italy) and East Asian societies (such as Japan and South Korea). The inherent relatedness of these major groups should probably not be particularly surprising. Geographically or culturally proximate nation-states, such as U.K. and U.S. or Austria and Germany, are politically independent but historically interdependent, often resulting in considerable institutional similarities (e.g. Ronen & Shenkar, 1985).

My second research question asked what the reasons for these cross-national differences in discretion might be. I theorized that cross-national differences in fundamental national institutions – both informal (e.g. social norms concerning autonomous actions) and formal (e.g. legal tradition) – would be associated with corresponding differences in managerial discretion. These ideas gained some empirical corroboration from a comparison of expert panel-generated

managerial discretion scores with existing data from the literature on national institutions (e.g. Hofstede, 2001; La Porta et al., 1998).

My third major research question asked what some of the major consequences of these cross-national differences in discretion might be. I theorized and hypothesized that national-level differences in discretion would be associated with corresponding national-level differences in CEO effects, CEO characteristics, and the sensitivity of CEO departure to firm performance levels. I also argued that these national-level relationships would be weakened by firm-level internationalization. Results largely supported my arguments concerning the direct effects of discretion. I found that, at the national level, managerial discretion was positively related to the magnitude of firm performance variance attributable to CEO-level factors. I also found that discretion was negatively related to CEO entry age and positively related to heterogeneity of CEO entry age and CEO exit age. Finally, I found evidence that poor firm performance was more likely to lead to CEO departure in high-discretion than in low-discretion environments.

There was, however, minimal support for my arguments concerning the moderating impact of firm-level internationalization. In fact, the managerial discretion-firm internationalization interaction had virtually no significant impact on any of the three dependent variable categories that I examined. Why might this have been the case? There are probably several reasons.

First, as this dissertation adopts the national level of analysis, several of my analyses necessarily relied on small sample sizes (e.g. the Hypotheses concerned with CEO effects and heterogeneity of CEO characteristics). Any moderating variables (such as firm internationalization) introduced into the mix would need to have substantial effect sizes in order for statistical significance to be detected (Aguinis, 1995). However, this concern did not exist

for the discretion-CEO entry age analysis (n = 508) or the discretion-firm performance-CEO departure analyses (n = 4073), which both used relatively large samples (although the latter of these did involve the use of a second-order interaction, which is also often problematic from a statistical power perspective (Aguinis, 1995)).

A second interpretation is more straightforward: the impact of firm-level internationalization may not, across a range of firms and industries, be strong enough to overcome national-level discretion effects. Alternatively, the impact of firm internationalization may itself be contingent primarily on industry-level characteristics. Further work, using samples with greater numbers of national-level observations, are needed to answer this question more effectively.

9.1. Research Implications

This dissertation contributes to the long-standing debate concerning whether (and in this case, where) managers matter. If, as I find, countries do indeed vary in terms of the discretion available to corporate executives, what might be some of the other implications of this variance? If a particular national environment allows a high level of discretion, how else might executives and firms differ from those in a low-discretion environment?

One of the most important domains in which national-level discretion variance will be reflected is that of executive attributions. As discussed briefly in Chapter 6.1., cross-national differences in the degree to which societies attribute organizational outcomes to individuals are probably associated with corresponding differences in firm performance-CEO departure sensitivity. Furthermore, also associated with these more individualistic attributions in high-discretion societies are likely to be a range of societal artifacts reflecting the perception that chief

executives are important and powerful figures with great responsibilities and an equally great capacity for corporate metamorphoses.

Central to these is the visibility of the chief executive role in society, and specifically the CEO's prominence in the news media. While a high level of CEO visibility in his or her own firm's communications (e.g. the size of a CEO's photograph in annual reports) may be a reflection of the individual-level trait of narcissism (Chatterjee & Hambrick, 2007), CEOs in general can be expected to have a greater prominence in the media, both general and business-related, in high-discretion societies. This is related to the notion of CEO celebrity (Hayward, Rindova, & Pollock, 2004; Wade, Porac, Pollock, & Graffin, 2006), which arises when journalists recognize a pattern of distinctive, repeated actions by a firm and subsequently attribute those actions to the firm's CEO. While the process of CEO celebrity may be similar across countries, cross-national differences in overall attribution levels (arising from differences in discretion) will result in variance in the degree to which CEO celebrity occurs. Relatedly, CEOs from low-discretion countries may be more likely to come from within the same firm, as there will be less preoccupation with the search for a "corporate savior" (Khurana, 2002). These and many other national-level differences in executive attributes could be explored using a managerial discretion theoretical framework.

In addition to work in the domain of executive attributions, the identification of cross-national differences in discretion opens up several other possible avenues of research. First, one would expect executive compensation patterns to differ across countries consistent with discretion patterns (Finkelstein & Boyd, 1998). In low-discretion settings, executive compensation committees are more likely to assume that a given executive will be more substitutable, as executives in general will have lower "marginal products" (Finkelstein & Boyd,

1998: 181). In high-discretion settings, though, compensation committees will be cognizant of the less substitutable nature of the CEO role, leading to greater pressure to provide sufficient compensation to attract the “best” possible candidate. Thus, executives in high-discretion settings might be expected to receive a greater magnitude of compensation and a greater proportion of incentive-based compensation.

Second, cross-national discretion variance may provide insights into competitive dynamics research (Smith, Ferrier, & Ndofor, 2001). Differences in discretion across countries may be associated with variance in firm actions and inter-firm behavior. For example, in high-discretion national environments, firm-level strategic and tactical responses to competitive moves may be faster (cf. Chen & MacMillan, 1992; Hambrick, Cho, & Chen, 1996), and radical or disruptive innovation may be more prevalent (Adner, 2002). Furthermore, the greater speed and scope of executive impact in high-discretion countries may be more likely to result in “hypercompetitive” (D’Aveni, 1994) behavior. In low-discretion national environments, leader-challenger pairs may be more stable (Ferrier, Smith, & Grimm, 1999) and firms may be more likely to pursue similar strategies to their competitors (see Porter, Takeuchi, and Sakakibara’s (2000) arguments concerning Japanese firms’ strategic homogeneity). Furthermore, the type of competitive actions employed by firms may differ. As executives in low-discretion countries will tend to have fewer opportunities for substantive strategic actions (e.g. large-scale mergers and acquisitions), there may be a greater focus on symbolic actions (e.g. market signaling). Finally, strategic imitation across national environments may vary, with firms from low-discretion contexts tending to imitate the strategies and structures of high-discretion contexts, rather than vice versa (cf. MacMillan, McCaffery, & van Wijk, 1985).

Finally, one could examine market reactions to unforeseen transitions (e.g. deaths in office). Using an event study methodology (McWilliams & Siegel, 1997), one could examine absolute changes in firm value following unforeseen transitions in a range of different countries. Consistent with the differences in their latitudes of action, transitions of CEOs from high-discretion countries should, in general, be associated with larger changes in firm stock price (both positive and negative) than transitions of CEOs from low-discretion countries.

9.2. Discretion across Levels of Analysis

How does national-level discretion relate to discretion at other levels, including the industry, firm, and individual levels? Up until now, I have largely argued for a simple main effect of national-level discretion. That is, all else equal, executives of firms headquartered within high-discretion countries will have greater latitudes of action than their counterparts in low-discretion countries. In addition to this main effect, though, there may also be some interaction between national-level discretion and the magnitude of discretion available from more proximate sources.

First, one could envisage a certain degree of nation-industry discretion complementarity. For example, firms headquartered in high-discretion countries may be structurally and strategically more able to adapt to high-discretion industries. Conversely, firms headquartered in low-discretion national environments may adapt better to low-discretion industry environments. Support for these ideas can be found in Schmidt's (2002: 307) arguments that certain industries will be increasingly dominated by firms operating in certain national settings. Thus, successful financial services, biotechnology, and "new economy" firms may be more likely to come from a

higher-discretion environment. In contrast, successful high-precision engineering and manufacturing firms may be more likely to come from a lower discretion national environment.

Second, national-level discretion may also interact with firm-level characteristics. In this dissertation, I explored the idea that national-level discretion would interact with firm-level internationalization. Several other firm-level factors, such a firm's generic strategic posture (e.g. "prospector" firms vs. "defender" firms (Miles & Snow, 1978)), may also interact with national-level discretion.

Third, the impact of national-level discretion on executives' actions may be moderated by individual-level factors also. While executives are relatively limited in their ability to respond to formal, legal constraints, they may differ in terms of their receptiveness to informal, normative constraints. Thus, the informal elements of national-level discretion may be particularly salient in executives possessing higher levels of cultural sensitivity (Johnson, Cullen, Sakano, & Takenouchi, 1996: 985). In contrast, executives with low levels of cultural sensitivity may be less influenced by the constraining or enabling elements of informal national institutions.

9.3. Discretion and Global Competitiveness

It is important to recognize that managerial discretion *per se* is not necessarily good or bad, but simply refers to the latitude of idiosyncratic action available to senior executives of a firm. Thus, there should not necessarily be any consistent relationship between discretion and national-level competitiveness. Greater discretion may, theoretically, allow more heterogeneous firm strategies, faster firm actions, more rapid innovation, and greater adaptability to changing world conditions. Aggregated to the national level, each of these factors would ostensibly appear to benefit a country's level of global competitiveness. At the same time, though, greater

discretion may also potentially result in greater misuse of company resources (through careless or self-serving managerial actions), less robustly-considered firm strategies, and executive overconfidence. Aggregated to the national level, these factors may harm a country's global competitiveness. While this remains an empirical question, some initial evidence may indeed support a possible non-relationship between discretion and competitiveness: The World Economic Forum's (2007) recent Global Competitiveness Report places Japan and Singapore (low discretion), Sweden and Finland (moderate discretion), and U.K. and U.S. (high discretion) all within the top 10 most competitive countries.

9.4. Limitations

Several limitations of this dissertation should be noted. First, I test my hypotheses using a moderate-sized, but not large, number of countries. Although restricting my sample to high-income OECD countries was useful for the purposes of comparability, this resulted in the omission of a range of Asian (e.g. China, India), Middle Eastern (e.g. Saudi Arabia, United Arab Emirates), and Latin American (e.g. Argentina, Brazil) countries, whose firms are becoming increasingly important on the world stage. I do argue that the theoretical model linking institutions and discretion explicated in Chapter 3 will also be relevant to non-high-income OECD societies. However, further work is needed to determine whether my empirical results related to the consequences of discretion generalize to these countries also.

Second, and relatedly, several of the statistical tests in my dissertation (the discretion-CEO effects and the discretion-heterogeneity tests) rely on national-level samples, with each country providing only a single data point. Although I was able to partially address the issue of

data precision variance with the use of a weighted least squares procedure, these hypothesis tests were hampered by unavoidably low statistical power.

Third, while psychometric tests support the reliability of the national-level discretion scores generated from the expert panel, I was not able to triangulate these scores with other possible sources of information concerning differences in executive discretion. Future work should focus on corroborating the discretion scores from the academic panel with scores derived from other sources, such as executives themselves (e.g. through questionnaires or scenario analyses), securities analysts with multi-national business experience, and management consultants.

9.5. Conclusion

The question of whether CEOs matter remains central to a number of important domains within organization science, including corporate governance, executive compensation, inter-firm competitive dynamics and strategic decision-making processes. This dissertation contributes to the strategic management and organization science literatures by exploring for the first time the antecedents, nature, and consequences of cross-national differences in managerial discretion. A greater understanding of national-level differences in discretion promises to shed light not only on existing heterogeneity in managerial practices internationally, but also on the transferability of new approaches in the future.

REFERENCES

- Abe, Y. 1997. Chief executive turnover and firm performance in Japan. *Journal of the Japanese and International Economies*, 11: 2-26.
- Abrahamson, E., & Hambrick, D. C. 1997. Attentional homogeneity in industries: The effect of discretion. *Journal of Organizational Behavior*, 18: 513-532.
- Adams, R., Almeida, H., & Ferreira, D. 2005. Powerful CEOs and their impact on corporate performance. *Review of Financial Studies*, 18: 1403-1432.
- Adner, R. 2002. When are technologies disruptive? A demand-based view of the emergence of competition. *Strategic Management Journal*, 23: 667-688.
- Aguilera, R., & Jackson, G. 2003. The cross-national diversity of corporate governance: Dimensions and determinants. *Academy of Management Review*, 28: 447-465.
- Aguinis, H. 1995. Statistical power problems with moderated multiple regression in management research. *Journal of Management*, 21: 1141-1158.
- Amable, B. 2003. *The diversity of modern capitalism*. New York: Oxford University Press.
- Amit, R., & Schoemaker, P. 1993. Strategic assets and organizational rent. *Strategic Management Journal*, 14: 33-46.
- Andersen, O. 1993. On the internationalization process of firms: A critical analysis. *Journal of International Business Studies*, 24: 209-231.
- Andersson, S. 2004. Internationalization in different industrial contexts. *Journal of Business Venturing*, 19: 851-875.
- Andrews, K. 1971. *The concept of corporate strategy*. Homewood, IL: Dow Jones-Irwin, Inc.
- Ashenfelter, O., & Card, D. 2002. Did the elimination of mandatory retirement affect faculty recruitment? *American Economic Review*, 92: 957-980.
- Baker, W. 1990. Market networks and corporate behavior. *American Journal of Sociology*, 96: 589-625.
- Barnard, C. 1938. *The functions of the executive*. Boston: Harvard University Press.
- Barrington, L., & Silvert, H. 2004. *CEO challenge 2004: Top ten challenges*: The Conference Board (Report: R-1353-04-ES).
- Bebchuk, L., & Roe, M. 1999. A theory of path dependence in corporate ownership and governance. *Stanford Law Review*, 52: 127-170.

- Beckman, C. M., & Haunschild, P. R. 2002. Network learning: The effects of partners' heterogeneity of experience on corporate acquisitions. *Administrative Science Quarterly*, 47: 92-124.
- Bennett, K., Smith, D. H., & Irwin, H. 1999. Preferences for participation in medical decisions in China. *Health Communication*, 11: 261-284.
- Berry, J. W. 1967. Independence and conformity in subsistence-level societies. *Journal of Personality and Social Psychology*, 7: 415-418.
- Bertrand, M., & Schoar, A. 2003. Managing with style: The effect of managers on firm policies. *Quarterly Journal of Economics*, 118: 1169-1208.
- Bhagwati, J. 2004. *In defense of globalization*. New York: Oxford University Press.
- Black, B. 2001. Culturally coded? The enigma of flexible labor markets. *Employee Relations*, 23: 401-416.
- Blau, P., & Scott, R. 1962. *Formal organizations: A comparative approach*. San Francisco: Chandler.
- Bobko, P. 2001. *Correlation and regression: Applications for industrial organizational psychology and management (2nd ed.)*. Thousand Oaks, CA: Sage.
- Boeker, W. 1992. Power and managerial dismissal: Scapegoating at the top. *Administrative Science Quarterly*, 37: 400-421.
- Boeker, W. 1997. Strategic change: The influence of managerial characteristics and organizational growth. *Academy of Management Journal*, 40: 152-170.
- Bollen, K. 1993. Liberal democracy: Validity and method factors in cross-national measures. *American Journal of Political Science*, 37: 1207-1230.
- Botero, J., Djankov, S., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. 2004. The regulation of labor. *Quarterly Journal of Economics*, 119: 1339-1382.
- Bowe, C., & Edgecliffe-Johnson, A. 2000. GE offers \$44bn for Honeywell: Welch to postpone retirement. *Financial Times*, October 23.
- Box-Steffensmeier, J. M., & Jones, B. S. 2004. *Event history modeling: A guide for social scientists*. Cambridge, U.K.: Cambridge University Press.
- Boyd, B., & Salamin, A. 2001. Strategic reward systems: A contingency model of pay system design. *Strategic Management Journal*, 22: 777-792.

- Boyd, B. K., & Gove, S. 2006. Managerial constraint: The intersection between organizational task environment and discretion. In D. Ketchen, & D. D. Bergh (Eds.), *Research methodology in strategy and management, Volume 3*: 57-95. New York: JAI Press.
- Brinton, M. C., & Nee, V. (Eds.). 1998. *The new institutionalism in sociology*. New York: Russell Sage Foundation.
- Calder, B. 1977. An attribution theory of leadership. In B. Staw, & G. Salancik (Eds.), *New directions in organizational behavior*: 179-204. Chicago, IL: St. Clair Press.
- Carl, D., Gupta, V., & Javidan, M. 2004. Power distance. In R. J. House, P. J. Hanges, M. Javidan, P. W. Dorfman, & V. Gupta (Eds.), *Culture, leadership, and organizations: The GLOBE study of 62 societies*: 513-563. Thousand Oaks, CA: Sage.
- Carpenter, M., & Fredrickson, J. 2001. Top management teams, global strategic posture, and the moderating role of uncertainty. *Academy of Management Journal*, 44: 533-546.
- Carpenter, M., Geletkanycz, M., & Sanders, W. 2004. Upper echelons research revisited: Antecedents, elements, and consequences of top management team composition. *Journal of Management*, 30: 749-778.
- Carpenter, M., & Golden, B. 1997. Perceived managerial discretion: A study of cause and effect. *Strategic Management Journal*, 18: 187-206.
- Carpenter, M., & Wade, J. 2002. Microlevel opportunity structures as determinants of non-CEO executive pay. *Academy of Management Journal*, 45: 1085-1103.
- Chandler, A. 1962. *Strategy and Structure: Concepts in the history of American industrial enterprise*: MIT Press.
- Chang, S.-J., & Singh, H. 2000. Corporate and industry effects on business unit competitive position. *Strategic Management Journal*, 21: 739-752.
- Charkham, J. 1994. *Keeping good company: A study of corporate governance in five countries*. Oxford: Oxford University Press.
- Chatterjee, A., & Hambrick, D. C. 2007. It's all about me: Narcissistic Chief Executive Officers and their effects on company strategy and performance. *Administrative Science Quarterly*, 52: 351-386.
- Chen, C., & Meindl, J. 1991. The construction of leadership images in the popular press: The case of Donald Burr and People Express. *Administrative Science Quarterly*, 36: 521-551.
- Chen, M.-J., Farr, J.-L., & MacMillan, I. C. 1993. An exploration of the expertness of outside informants. *Academy of Management Journal*, 36: 1614-1632.

- Chen, M.-J., & MacMillan, I. C. 1992. Nonresponse and delayed response to competitive moves: The roles of competitor dependence and action irreversibility. *Academy of Management Journal*, 35: 539-570.
- Child, J. 1972. Organizational structure, environment, and performance: The role of strategic choice. *Sociology*, 6: 1-22.
- Chinese. 1987. Chinese values and the search for culture-free dimensions of culture. *Journal of Cross-Cultural Psychology*, 18: 143-164.
- Cho, T., & Hambrick, D. 2006. Attention as the mediator between top management team characteristics and strategic change: The case of airline deregulation. *Organization Science*, 17: 453-460.
- Clapham, S., & Schwenk, C. 1991. Self-serving attributions, managerial cognition, and company performance. *Strategic Management Journal*, 12: 219-229.
- Cleveland, J., & Landy, F. 1983. The effects of person and job stereotypes on two personnel decisions. *Journal of Applied Psychology*, 68: 609-619.
- Cleves, M. A., Gould, W. W., & Gutierrez, R. G. 2004. *An introduction to survival analysis using Stata (rev. ed.)*. College Station, TX: Stata Press.
- Coase, R. 1998. The new institutional economics. *American Economic Review*, 88: 72-74.
- Collins, J. C. 2001. *Good to great: Why some companies make the leap - and others don't*. New York: HarperBusiness.
- Colson, E. 1974. *Tradition and contract: The problem of order*. Chicago: Aldine.
- Conyon, M., & Murphy, K. 2000. The prince and the pauper? CEO pay in the United States and United Kingdom. *The Economic Journal*, 110: F640-F671.
- Crossland, C., & Hambrick, D. H. 2007. How national systems differ in their constraints on corporate executives: A study of CEO effects in three countries. *Strategic Management Journal*, 28: 767-789.
- Cyert, R., & March, J. 1963. *A behavioral theory of the firm*. London: Prentice-Hall.
- Daily, C., & Johnson, J. 1997. Sources of CEO power and firm financial performance: A longitudinal assessment. *Journal of Management*, 23: 97-117.
- Daily, C. M., Certo, S. T., & Dalton, D. R. 2000. International experience in the executive suite: The path to prosperity? *Strategic Management Journal*, 21: 515-523.

- D'Aveni, R. 1994. *Hypercompetition: Managing the dynamics of strategic maneuvering*. New York: Free Press.
- Defond, M. L., & Hung, M. 2004. Investor protection and corporate governance: Evidence from worldwide CEO turnover. *Journal of Accounting Research*, 42: 269-312.
- Delacroix, J., & Carroll, G. 1983. Organizational foundings: An ecological study of the newspaper industries of Argentina and Ireland. *Administrative Science Quarterly*, 28: 274-291.
- Demsetz, H., & Lehn, K. 1985. The structure of corporate ownership: Causes and consequences. *Journal of Political Economy*, 93: 1155-1177.
- Den Hartog, D., House, R., Hanges, P., & Ruiz-Quintanilla, S. 1999. Culture specific and cross-culturally generalizable implicit leadership theories: Are attributes of charismatic/transformational leadership universally endorsed? *Leadership Quarterly*, 10: 219-256.
- Dennett, D. C. 1984. *Elbow room: The varieties of free will worth wanting*. Cambridge, MA: M.I.T. Press.
- Dharwadkar, R., George, G., & Brandes, P. 2000. Privatization in emerging economies: An agency theory perspective. *Academy of Management Review*, 25: 650-669.
- DiMaggio, P. 1997. Culture and cognition. *Annual Review of Sociology*, 23: 263-287.
- DiMaggio, P., & Powell, W. 1983. The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 48: 147-160.
- Dobbin, F. 1994. *Forging industrial policy: The United States, Britain, and France in the railway age*. New York: Cambridge University Press.
- Dore, R. 2005. Deviant or different? Corporate governance in Japan and Germany. *Corporate Governance: An International Review*, 13: 437-446.
- Drucker, P. 1954. *The principles of management*. New York: Harper & Row.
- Durkheim, E. 1893 (trans. 1933). *The division of labor in society*. New York: Free Press.
- Eisenhardt, K. 1989. Agency theory: An assessment and review. *Academy of Management Review*, 14: 57-74.
- Ellickson, R. C. 1986. Of Coase and cattle: Dispute resolution among neighbors in Shasta county. *Stanford Law Review*, 38: 623-637.

- Estevez-Abe, M., Iversen, T., & Soskice, D. 2001. Social protection and the formation of skills: A reinterpretation of the welfare state. In P. Hall, & D. Soskice (Eds.), *Varieties of capitalism: The institutional foundations of comparative advantage*. New York: Oxford University Press.
- Ewing, J., & Hibbard, J. 2005. The bell tolls for Germany Inc.: Cozy relations between business, banks, and labor are unraveling. *Business Week*, August 15: 40-41.
- Ferrier, W., Smith, K., & Grimm, C. 1999. The role competitive action in market share erosion and industry dethronement: A study of industry leaders and challengers. *Academy of Management Journal*, 42: 372-388.
- Ferreira, M., & Vilela, A. 2004. Why do firms hold cash? Evidence from EMU countries. *European Financial Management*, 10: 295-320.
- Fidler, J. 1981. *The British business elite: Its attitude to class, status, and power*. London: Routledge & Kegan Paul.
- Finkelstein, S., & Boyd, B. K. 1998. How much does the CEO matter? The role of managerial discretion in the setting of CEO compensation. *Academy of Management Journal*, 41: 179-199.
- Finkelstein, S., & Hambrick, D. 1988. Chief executive compensation: A synthesis and reconciliation. *Strategic Management Journal*, 9: 543-558.
- Finkelstein, S., & Hambrick, D. 1990. Top-management-team tenure and organizational outcomes: The moderating role of managerial discretion. *Administrative Science Quarterly*, 35: 484-503.
- Finkelstein, S., & Hambrick, D. 1996. *Strategic leadership: Top executives and their effects on organizations*. Minneapolis: West Publishing.
- Finkelstein, S., & Peteraf, M. A. Forthcoming. Managerial activities: A missing link in managerial discretion theory. *Strategic Organization*.
- Forbes, D. 1999. Cognition and corporate governance: Understanding boards of directors as strategic decision-making groups. *Academy of Management Review*, 24: 489-505.
- Forbes, D. 2005. Managerial determinants of decision speed in new ventures. *Strategic Management Journal*, 26: 355-366.
- Fox, I., & Marcus, A. 1992. The causes and consequences of leveraged management buyouts. *Administrative Science Quarterly*, 17: 62-85.
- Friedman, T. 1999. *The Lexus and the olive tree*. New York: Farrar, Straus, & Giroux.

- Gangl, M. 2003. *Unemployment dynamics in the United States and West Germany: Economic restructuring, institutions, and labor market processes*. Heidelberg: Physica-Verlag.
- Gedajlovic, E., & Shapiro, D. 1998. Management and ownership effects: Evidence from five countries. *Strategic Management Journal*, 19: 533-553.
- Gedajlovic, E., & Shapiro, D. 2002. Ownership structure and firm profitability in Japan. *Academy of Management Journal*, 45: 565-575.
- Geletkanycz, M., & Black, S. 2001. Bound by the past? Experience-based effects on commitment to the status quo. *Journal of Management*, 27: 3-21.
- Geletkanycz, M., Boyd, B., & Finkelstein, S. 2001. The strategic value of CEO external directorate networks: Implications for CEO compensation. *Strategic Management Journal*, 22: 889-898.
- Geletkanycz, M. A. 1997. The salience of 'Culture's Consequences': The effects of cultural values on top executive commitment to the *status quo*. *Strategic Management Journal*, 18: 615-634.
- Gelfand, M., Bharwuk, D., Nishii, L., & Bechtold, D. 2004. Individualism and collectivism. In R. House, P. Hanges, M. Javidan, P. Dorfman, & V. Gupta (Eds.), *Culture, leadership, and organizations: The GLOBE study of 62 societies*. Thousand Oaks, CA: Sage.
- Gelfand, M. J., Nishii, L. H., & Raver, J. L. 2006. On the nature and importance of cultural tightness-looseness. *Journal of Applied Psychology*, 91: 1225-1244.
- Gelman, A., & Hill, J. 2007. *Data analysis using regression and multilevel/hierarchical models*. New York: Cambridge University Press.
- Giddens, A. 1984. *The constitution of society*. Berkeley: University of California Press.
- Glaeser, E., & Shleifer, A. 2001. *Legal origins*. Cambridge, MA: National Bureau of Economic Research, Working paper No. 8272.
- Goldsmith, A. A. 1999. Slapping the grasping hand: Correlates of political corruption in emerging markets. *American Journal of Economics and Sociology*, 58: 865-883.
- Grandori, A. (Ed.). 2004. *Corporate governance and firm organization: Microfoundations and structural forms*. New York: Oxford University Press.
- Greenberg, J., Pyszczynski, T., & Solomon, S. 1982. The self-serving attributional bias: Beyond self-presentation. *Journal of Experimental Social Psychology*, 18: 56-67.
- Greif, A., Milgrom, P., & Weingast, B. R. 1994. Coordination, commitment, and enforcement: The case of the merchant guild. *Journal of Political Economy*, 102: 745-776.

- Griffiths, A., & Zammuto, R. 2005. Institutional governance systems and variations in national competitive advantage: An integrative framework. *Academy of Management Review*, 30: 823-842.
- Grinyer, P., Al-Bazzaz, S., & Yasi-Ardekani, M. 1986. Towards a contingency theory of corporate planning: Findings in 48 U.K. companies. *Strategic Management Journal*, 7: 3-28.
- Grusky, O. 1961. Corporate size, bureaucratization, and managerial succession. *American Journal of Sociology*: 261-269.
- Guillen, M. 2001. *The limits of convergence: globalization and organizational change in Argentina, South Korea, and Spain*. Princeton: Princeton University Press.
- Gupta, A., & Govindarajan, V. 1984. Business unit strategy, managerial characteristics, and business unit effectiveness at strategy implementation. *Academy of Management Journal*, 27: 25-41.
- Haleblian, J., & Finkelstein, S. 1993. Top management team size, CEO dominance, and firm performance: The moderating roles of environmental turbulence and discretion. *Academy of Management Journal*, 36: 844-863.
- Hall, P., & Soskice, D. (Eds.). 2001. *Varieties of capitalism: The institutional foundations of comparative advantage*. New York: Oxford University Press.
- Hambrick, D. C. 2007. Upper echelons theory: An Update. *Academy of Management Review*, 32: 334-343.
- Hambrick, D. C., & Abrahamson, E. 1995. Assessing managerial discretion across industries: A multimethod approach. *Academy of Management Journal*, 38: 1427-1441.
- Hambrick, D. C., Cho, T. S., & Chen, M.-J. 1996. The influence of top management team heterogeneity on firms' competitive moves. *Administrative Science Quarterly*, 41: 659-684.
- Hambrick, D. C., & Finkelstein, S. 1987. Managerial discretion: A bridge between polar views of organizational outcomes. In B. Staw, & L. Cummings (Eds.), *Research in Organizational Behavior*, Vol. 9: 369-406. Greenwich, CT: JAI Press.
- Hambrick, D. C., Finkelstein, S., Cho, T., & Jackson, E. 2005. Isomorphism in reverse: Institutional theory as an explanation for recent increases in intraindustry heterogeneity and managerial discretion. In B. Staw, & R. Kramer (Eds.), *Research in Organizational Behavior (Volume 26)*: Elsevier.

- Hambrick, D. C., Geletkanycz, M. A., & Fredrickson, J. W. 1993. Top executive commitment to the *status quo*: Some tests of its determinants. *Strategic Management Journal*, 14: 401-418.
- Hambrick, D. C., & Mason, P. 1984. Upper echelons: The organization as a reflection of its top managers. *Academy of Management Review*, 9: 193-206.
- Hannan, M., & Freeman, J. 1977. The population ecology of organizations. *American Journal of Sociology*, 82: 929-964.
- Hansmann, H., & Kraakmann, R. 2001. The end of history for corporate law. *Georgetown Law Review*, 89: 439-468.
- Harvey, J., Town, J., & Yarkin, K. 1981. How fundamental is the fundamental attribution error? *Journal of Personality and Social Psychology*, 40: 346-349.
- Hayward, M., Rindova, V., & Pollock, T. 2004. Believing one's own press: The causes and consequences of CEO celebrity. *Strategic Management Journal*, 25: 637-653.
- Heider, F. 1958. *The psychology of interpersonal relations*. New York: Wiley.
- Helmke, G., & Levitsky, S. 2004. Informal institutions and comparative politics: A research agenda. *Perspectives on Politics*, 2: 725-740.
- Helmke, G., & Levitsky, S. (Eds.). 2006. *Informal institutions and democracy: Lessons from Latin America*. Baltimore, MD: Johns Hopkins University Press.
- Hendry, J. 2002. The principal's other problems: Honest incompetence and the specification of objectives. *Academy of Management Review*, 27: 98-113.
- Hill, C., & Snell, S. 1989. Effects of ownership structure and control on corporate profitability. *Academy of Management Journal*, 32: 25-46.
- Ho, S., Lam, K., & Sami, H. 2004. The investment opportunity set, director ownership, and corporate policies: Evidence from an emerging market. *Journal of Corporate Finance*, 10: 383-408.
- Hofstede, G. 2001. *Culture's consequences: Comparing values, behaviors, institutions, and organizations across nations (2nd ed.)*. Thousand Oaks, CA: Sage.
- Hoskisson, R. E., Cannella, A. A., Tihanyi, L., & Faraci, R. 2004. Asset restructuring and business group affiliation in French civil law countries. *Strategic Management Journal*, 25: 525-539.

- Hossain, M., Ahmed, K., & Godfrey, J. 2005. Investment opportunity set and voluntary disclosure of prospective information: A simultaneous equations approach. *Journal of Business Finance and Accounting*, 32: 871-908.
- Hough, J. R. 2006. Business segment performance redux: A multilevel approach. *Strategic Management Journal*, 27: 45-61.
- House, R., Hanges, P., Javidan, M., Dorfman, P., & Gupta, V. (Eds.). 2004. *Culture, leadership, and organizations: The GLOBE study of 62 societies*. Thousand Oaks, CA: Sage.
- House, R., & Javidan, M. 2004. Overview of GLOBE. In R. House, P. Hanges, M. Javidan, P. Dorfman, & V. Gupta (Eds.), *Culture, leadership, and organizations: The GLOBE study of 62 societies*. Thousand Oaks, CA: Sage.
- House, R., Wright, N., & Aditya, R. 1997. Cross cultural research on organizational leadership: A critical analysis and a proposed theory. In P. Earley, & M. Erez (Eds.), *New perspectives on international industrial/organizational psychology*: 535-625. San Francisco, CA: Jossey-Bass.
- Hubbard, R. G., & Palia, D. 1995. Executive pay and performance: Evidence from the U.S. banking industry. *Journal of Financial Economics*, 39: 105-130.
- Huysmans, J. 2004. Minding exceptions: Politics of insecurity and liberal democracy. *Contemporary Political Theory*, 3: 321-341.
- Ihlwan, M., & Kiley, D. 2006. Hyundai's 'We're sunk' defense. *Business Week*, June 19: 13.
- Ingram, P., & Clay, K. 2000. The choice-within-constraints new institutionalism and implications for sociology. *Annual Review of Sociology*, 26: 525-546.
- Javidan, M. 1984. The impact of environmental uncertainty on long-range planning practices of the U.S. savings and loan industry. *Strategic Management Journal*, 5: 381-392.
- Jensen, M., & Meckling, W. 1976. Theory of the firm: Managerial behavior, agency costs, and ownership structure. *Journal of Financial Economics*, 3: 305-360.
- Johanson, I., & Vahlne, J.-E. 1977. The internationalization process of the firm - A model of knowledge development and increasing foreign market commitments. *Journal of International Business Studies*, 8: 23-32.
- Johnson, J., Cullen, J., Sakano, T., & Takenouchi, H. 1996. Setting the stage for trust and strategic integration in Japanese-U.S. cooperative alliances. *Journal of International Business Studies*, 27: 981-1004.
- Johnson, S., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. 2000. Tunneling. *American Economic Review*, 90: 22-27.

- Judge, T. A., Cable, D. M., Colbert, A. E., & Rynes, S. L. 2007. What causes an article to be cited - article, author, or journal? *Academy of Management Journal*, 50: 491-506.
- Kagan, R. A. 1994. Do lawyers cause adversarial legalism? A preliminary inquiry. *Law and Social Inquiry*, 19: 1-62.
- Kagan, R. A. 1997. Should Europe worry about adversarial legalism? *Oxford Journal of Legal Studies*, 17: 165-183.
- Kandori, M. 1992. Social norms and community enforcement. *Review of Economic Studies*, 59: 63-80.
- Kane, R. (Ed.). 2002. *The Oxford handbook of free will*. New York: Oxford University Press.
- Kang, J.-K., & Shivdasani, A. 1995. Firm performance, corporate governance, and top executive turnover in Japan. *Journal of Financial Economics*, 38: 29-58.
- Kaplan, S. N. 1994a. Top executive rewards and firm performance: A comparison of Japan and the United States. *Journal of Political Economy*, 102: 510-546.
- Kaplan, S. N. 1994b. Top executives, turnover, and firm performance in Germany. *Journal of Law, Economics, and Organization*, 10: 142-159.
- Keefer, P., & Knack, S. 2005. Social capital, social norms, and the new institutional economics. In C. Menard, & M. M. Shirley (Eds.), *Handbook of new institutional economics*: 701-725. New York: Springer.
- Kelley, H. 1973. The processes of causal attribution. *American Psychologist*, 28(107-128).
- Kelley, H., & Michela, J. 1980. Attribution theory and research. *Annual Review of Psychology*, 31: 457-501.
- Kemmelmeier, M., Wieczorkowska, G., Erb, H.-P., & Burnstein, E. 2002. Individualism, authoritarianism, and attitudes toward assisted death: Cross-cultural, cross-regional, and experimental evidence. *Journal of Applied Social Psychology*, 32: 60-85.
- Khanna, T., Kogan, J., & Palepu, K. 2006. Globalization and its similarities in corporate governance: A cross-country analysis. *Review of Economics and Statistics*, 88: 69-90.
- Khurana, R. 2002. *Searching for a corporate savior: The irrational quest for charismatic CEOs*. Princeton, N.J.: Princeton University Press.
- Kilduff, M., Angelmar, R., & Mehra, A. 2000. Top management-team diversity and firm performance: Examining the role of cognitions. *Organization Science*, 11: 21-34.

- Kim, B., & Prescott, J. 2005. Deregulatory forms, variations in the speed of governance adaptation, and firm performance. *Academy of Management Review*, 30: 414-425.
- Kim, H. 2001. When will my boss step down? Tenure rules in top executive change in Japanese firms. *Seikei University. Faculty of Economics Discussion Paper Series No. 62*.
- Kim, M. S., Smith, D. H., & Yueguo, G. 1999. Medical decision making and Chinese patients' self-construals. *Health Communication*, 11: 249-260.
- Kite, M., Deaux, K., & Miele, M. 1991. Stereotypes of young and old: Does age outweigh gender? *Psychology and Aging*, 6: 19-27.
- Klau, F., & Mittelstadt, A. 1986. Labor market flexibility. *OECD Economic Studies*, 6: 7-45.
- Klein, J. K., & Kozlowski, S. W. 2000. From micro to meso: Critical steps in conceptualizing and conducting multilevel research. *Organizational Research Methods*, 3: 211-236.
- Knack, S., & Keefer, P. 1997. Does social capital have an economic payoff? A cross-country investigation. *Quarterly Journal of Economics*, 112: 1251-1288.
- Knight, J., & Ensminger, J. 1998. Conflict over changing social norms: Bargaining, ideology, and enforcement. In M. C. Brinton, & V. Nee (Eds.), *The new institutionalism in sociology*: 105-126. New York: Russell Sage Foundation.
- Kogut, B., & Singh, H. 1988. The effect of national culture on the choice of entry mode. *Journal of International Business Studies*, 19: 411-432.
- Krull, D., Loy, M., Lin, J., Wang, C.-F., Chen, S., & Zhao, X. 1999. The fundamental attribution error: Correspondence bias in individualist and collectivist cultures. *Personality and Social Psychology Bulletin*, 25: 1208-1219.
- La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. 1999. Corporate ownership around the world. *Journal of Finance*, 54: 471-517.
- La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. 2006. What works in securities laws? *Journal of Finance*, 61: 1-32.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. 1997. Legal determinants of external finance. *Journal of Finance*, 52: 1131-1150.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. 1998. Law and finance. *Journal of Political Economy*, 106: 1113-1155.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. 2000a. Agency problems and dividend policies around the world. *Journal of Finance*, 55: 1-33.

- La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. 2000b. Investor protection and corporate governance. *Journal of Financial Economics*, 58: 3-27.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. 2002. Investor protection and corporate valuation. *Journal of Finance*, 57: 1147-1170.
- Lauth, H.-J. 2000. Informal institutions and democracy. *Democratization*, 7(4): 21-50.
- Lavelle, L. 2006. The best undergraduate B-schools. *Business Week*, May 8: 76-93.
- Lawrence, P., & Lorsch, J. 1967. Differentiation and integration in complex organizations. *Administrative Science Quarterly*, 12: 1-47.
- Lee, P. 1997. A comparative analysis of layoff announcements and stock price reactions in the United States and Japan. *Strategic Management Journal*, 18: 879-894.
- Lefcourt, H. 1982. *Locus of control: Current trends in theory and research (2nd ed.)*. Hillsdale, NJ: Erlbaum Associates.
- Lenz, R. T. 1981. 'Determinants' of organizational performance: An interdisciplinary review. *Strategic Management Journal*, 2: 131-154.
- Leuz, C., Nanda, D., & Wysocki, P. 2003. Earnings management and investor protection: An international comparison. *Journal of Financial Economics*, 69: 505-527.
- Levinthal, D., & Myatt, J. 1994. Co-evolution of capabilities and industry: The evolution of mutual fund processing. *Strategic Management Journal*, 15 (Winter special issue): 45-62.
- Lieberson, S., & O'Connor, J. 1972. Leadership and organizational performance: A study of large corporations. *American Sociological Review*, 37: 117-130.
- Lindblom, C. E. 1977. *Politics and markets: The world's political economic systems*. New York: Basic Books.
- Lowndes, V. 1996. Varieties of new institutionalism: A critical appraisal. *Public Administration*, 74: 181-197.
- Lucier, C., Schuyt, R., & Tse, E. 2005. CEO succession 2004: The world's most prominent temp workers. *strategy+business*, Winter: 1-16.
- MacMillan, I., McCaffrey, M., & Van Wijk, G. 1985. Competitors' responses to easily imitated new products - Exploring commercial banking product introductions. *Strategic Management Journal*, 6: 75-86.

- Magnan, M., & St-Onge, S. 1997. Bank performance and executive compensation: A managerial discretion perspective. *Strategic Management Journal*, 18: 573-581.
- Mahoney, P. 2001. The common law and economic growth: Hayek might be right. *Journal of Legal Studies*, 30: 503-525.
- Makhija, M., & Stewart, A. 2002. The effect of national context on perceptions of risk: A comparison of planned versus free-market managers. *Journal of International Business Studies*, 33: 737-756.
- Makino, S., Isobe, T., & Chan, C. 2004. Does country matter? *Strategic Management Journal*, 25: 1027-1043.
- Mannari, H. 1974. *The Japanese business leaders*. Tokyo: University of Tokyo Press.
- Mantzavinos, C. 2001. *Individuals, institutions, and markets*. New York: Cambridge University Press.
- Mantzavinos, C., North, D. C., & Shariq, S. 2001. Learning, institutions, and economic performance. *Perspectives on Politics*, 2: 75-84.
- Margolis, D. R. 1983. Informal institutions: Alternative networks in the corporate State. *Contemporary Sociology*, 12: 567-568.
- Marris, R. 1964. *The economic theory of managerial capitalism*. New York: Free Press of Glencoe.
- McEachern, W. A. 1977. *Managerial control and performance*. Lexington, MA: D. C. Heath.
- McGahan, A., & Porter, M. 1997. How much does industry matter, really? *Strategic Management Journal*, 18(Summer Special Issue): 15-30.
- McGraw, K. O., & Wong, S. P. 1996. Forming inferences about some intraclass correlation coefficients. *Psychological Methods*, 1: 30-46.
- McWilliams, A., & Siegel, D. 1997. Event studies in management research: Theoretical and empirical issues. *Academy of Management Journal*, 40: 626-657.
- Meindl, J., & Ehrlich, S. 1987. The romance of leadership and the evaluation of organizational performance. *Academy of Management Journal*, 30: 91-109.
- Meindl, J., Ehrlich, S., & Dukerich, J. 1985. The romance of leadership. *Administrative Science Quarterly*, 30: 78-102.
- Meyer, A. 1982. Adapting to environmental jolts. *Administrative Science Quarterly*, 27: 515-537.

- Meyer, J., & Rowan, B. 1977. Institutionalized organizations: Formal structure as myth and ceremony. *American Journal of Sociology*, 83: 340-363.
- Mezias, S. J. 1990. An institutional model of organizational practice: Financial reporting at the Fortune 500. *Administrative Science Quarterly*, 35: 431-457.
- Miles, R. E., & Snow, C. C. 1978. *Organizational strategy, structure, and process*. New York: McGraw-Hill.
- Miller, D., & Shamsie, J. 2001. Learning across the life cycle: Experimentation and performance among the Hollywood studio heads. *Strategic Management Journal*, 22: 725-745.
- Miller, D. T. 1999. The norm of self-interest. *American Psychologist*, 54: 1053-1060.
- Mintzberg, H. 1973. *The nature of managerial work*. New York: Longman.
- Misangyi, V. 2002. A test of alternative theories of managerial discretion. *Unpublished Doctoral Dissertation: University of Florida*.
- Mischel, W. 1977. The interaction of person and situation. In D. Magnusson, & N. Endler (Eds.), *Personality at the crossroads: Current issues in interactional psychology*. Hillsdale, NJ: Lawrence Erlbaum Associates, Inc.
- Modigliani, F., & Perotti, E. 1997. Protection of minority interest and the development of security markets. *Managerial and Decision Economics*, 18: 519-528.
- Mone, M., McKinley, W., & Barker, V. 1998. Organizational decline and innovation: A contingency framework. *Academy of Management Review*, 23: 115-132.
- Montanari, J. 1978. Managerial discretion: An expanded model of organizational choice. *Academy of Management Review*, 3: 231-241.
- Morgan, G., Whitley, R., & Moen, E. (Eds.). 2005. *Changing capitalisms? Internationalization, institutional change, and systems of economic organization*. New York: Oxford University Press.
- Mudambi, R., & Navarra, P. 2004. Is knowledge power? Knowledge flows, subsidiary power and rent-seeking within MNCs. *Journal of International Business Studies*, 35: 385-406.
- Muna, F. A. 1980. *The Arab executive*. New York: St. Martin's Press.
- Nauriyal, D. K., Drummond, M. S., & Lal, Y. B. (Eds.). 2006. *Buddhist thought and applied psychological research: Transcending the boundaries*. New York: Routledge.
- Nelson, R. R., & Nelson, K. 2002. Technology, institutions, and innovation systems. *Research Policy*, 31: 256-272.

- North, D. C. 1990. *Institutions, institutional change and economic performance*. New York: Cambridge University Press.
- North, D. C. 1991. Institutions. *Journal of Economic Perspectives*, 5: 97-112.
- North, D. C. 1993. Institutions and credible commitment. *Journal of Institutional and Theoretical Economics*, 149: 11-23.
- North, D. C., & Weingast, B. 1989. The evolution of institutions governing public choice in 17th century England. *Journal of Economic History*, 49: 803-832.
- Norton, D. A. G. 1994. *Economics for an open economy*. London: Oak Tree Press.
- O'Brien, M. 1958. Modern philosophy and Platonic ethics. *Journal of the History of Ideas*, 19: 451-472.
- Olson, M. 2000. Dictatorship, democracy, and development. *American Political Science Review*, 87: 567-576.
- Pejovich, S. 1995. *Economic analysis of institutions and systems*. Boston, MA: Kluwer Academic Publishers.
- Pelto, P. J. 1968. The difference between 'tight' and 'loose' societies. *Transaction*, 5: 37-40.
- Peng, M. 2002. Towards an institution-based view of business strategy. *Asia-Pacific Journal of Management*, 19: 251-267.
- Pfeffer, J. 1981. Management as symbolic action: The creation and maintenance of organizational paradigms. *Research in Organizational Behavior*, 3: 1-52.
- Pfeffer, J., & Salancik, G. R. 1978. *The external control of organizations : a resource dependence perspective*. New York: Harper & Row.
- Phan, P., & Hill, C. 1995. Organizational restructuring and economic performance in leveraged buyouts: An ex-post study. *Academy of Management Journal*, 38: 704-739.
- Porter, M. 1990. *The competitive advantage of nations*. New York: Free Press.
- Porter, M., Takeuchi, H., & Sakakibara, M. 2000. *Can Japan compete?* Cambridge, MA: Perseus Publishing.
- Posner, R. A. 1980. A theory of primitive society, with special reference to law. *Journal of Law and Economics*, 23: 1-53.

- Priem, R., & Harrison, D. 1994. Exploring strategic judgment: Methods for testing the assumptions of prescriptive contingency theories. *Strategic Management Journal*, 15: 311-324.
- Puffer, S. M., & Weintrop, J. B. 1991. Corporate performance and CEO turnover: The role of performance expectations. *Administrative Science Quarterly*, 36: 1-19.
- Rajagopalan, N. 1997. Strategic orientations, incentive plan adoptions, and firm performance: Evidence from electric utility firms. *Strategic Management Journal*, 18: 761-785.
- Rajagopalan, N., & Datta, D. 1996. CEO characteristics: Does industry matter? *Academy of Management Journal*, 39: 197-215.
- Rajagopalan, N., & Finkelstein, S. 1992. Effects of strategic orientation and environmental change on senior management reward systems. *Strategic Management Journal*, 13 (Summer Special Issue): 127-142.
- Ritzer, G. 2004. *The McDonaldization of society (Revised New Century ed.)*. Thousand Oaks, CA: Pine Forge Press.
- Roe, M. 1993. Some differences in corporate structure in Germany, Japan, and the United States. *Yale Law Journal*, 102: 1927-1993.
- Ronen, S., & Shenkar, O. 1985. Clustering countries on attitudinal dimensions: A review and synthesis. *Academy of Management Review*, 10: 435-454.
- Rose, R., & Kavanagh, D. 1976. The monarchy in contemporary political culture. *Comparative Politics*, 8: 548-576.
- Ruigrok, W., & Wagner, H. 2003. Internationalization and performance: An organizational learning perspective. *Management International Review*, 43: 63-83.
- Rumelt, R. 1991. How much does industry matter? *Strategic Management Journal*, 12: 167-185.
- Salancik, G. R., & Pfeffer, J. 1980. Effects of ownership and performance on executive tenure in U.S. corporations. *Academy of Management Journal*, 23: 653-664.
- Sanders, W., & Carpenter, M. 1998. Internationalization and firm governance: The roles of CEO compensation, top team composition, and board structure. *Academy of Management Journal*, 41: 158-178.
- Schmidt, V. A. 2002. *The futures of European capitalism*. New York: Oxford University Press.

- Schwartz, S. 1994. Beyond individualism/collectivism: New cultural dimensions of values. In U. Kim, H. Triandis, C. Kagitcibasi, S.-C. Choi, & G. Yoon (Eds.), *Individualism and collectivism: Theory, method, and applications*: 85-119. Thousand Oaks, CA: Sage.
- Scott, W. R. 2001. *Institutions and organizations (2nd ed.)*. Thousand Oaks, CA: Sage.
- Shen, W., & Cho, T. S. 2005. Exploring involuntary executive turnover through a managerial discretion framework. *Academy of Management Review*, 30: 843-854.
- Shirley, M. M. 2005. Institutions and development. In C. Menard, & M. M. Shirley (Eds.), *Handbook of new institutional economics*: 611-638. New York: Springer.
- Shleifer, A., & Vishny, R. 1997. A survey of corporate governance. *Journal of Finance*, 52: 737-783.
- Shrout, P. E., & Fleiss, J. L. 1979. Intraclass correlations: Uses in assessing rater reliability. *Psychological Bulletin*, 86: 420-428.
- Simons, T., Pelled, L. H., & Smith, K. 1999. Making use of difference: Diversity, debate, and decision comprehensiveness in top management teams. *Academy of Management Journal*, 42: 662-673.
- Singer, M., & Sewell, C. 1989. Applicant age and selection interview decisions: Effect of information exposure on age discrimination in personnel selection. *Personnel Psychology*, 42: 135-154.
- Slote, M. 1982. Selective necessity and the free-will problem. *Journal of Philosophy*, 79: 5-24.
- Smith, C. W., & Watts, R. L. 1992. The investment opportunity set and corporate financing, dividend, and compensation policies. *Journal of Financial Economics*, 32: 263-292.
- Smith, K. G., Ferrier, W. J., & Ndofor, H. 2001. Competitive dynamics research: Critique and future directions. In M. A. Hitt, R. E. Freeman, & J. S. Harrison (Eds.), *The Blackwell handbook of strategic management*. Malden, MA: Blackwell Business.
- Spencer, J., Murtha, T., & Lenway, S. 2005. How governments matter to new industry creation. *Academy of Management Review*, 30: 321-337.
- Stiglitz, J. 2003. *Globalization and its discontents*. New York: W. W. Norton.
- Stiglitz, J. E. 2000. Formal and informal institutions. In P. Dasgupta, & I. Serageldin (Eds.), *Social capital: A multifaceted perspective*: 59-68. Washington, DC: World Bank.
- Suchman, M. C. 1995. Managing legitimacy: Strategic and institutional approaches. *Academy of Management Review*, 20: 571-610.

- Sullivan, D. 1994. Measuring the degree of internationalization of a firm. *Journal of International Business Studies*, 25: 325-342.
- Taggar, S. 2002. Individual creativity and group ability to utilize individual creative resources: A multilevel model. *Academy of Management Journal*, 45: 315-330.
- Teece, D., Rumelt, R., Dosi, G., & Winter, S. 1994. Understanding corporate coherence: Theory and evidence. *Journal of Economic Behavior and Organization*, 23: 1-30.
- Tetlock, P. E. 1985. Accountability: A social check on the fundamental attribution error. *Social Psychology Quarterly*, 48: 227-236.
- Thomas, A. 1988. Does leadership make a difference to organizational performance? *Administrative Science Quarterly*, 33: 388-400.
- Tolbert, P., & Zucker, L. 1996. The institutionalization of institutional theory. In S. Clegg, C. Hardy, & W. Nord (Eds.), *Handbook of organization studies*. London: Sage.
- Tosi, H., & Gomez-Mejia, L. 1989. The de-coupling of CEO pay and performance: An agency theory perspective. *Administrative Science Quarterly*, 34: 169-189.
- Towers, P. 2002. *Worldwide total remuneration 2001-2002*: Towers Perrin.
- Triandis, H. 1994. Cross-cultural industrial and organizational psychology. *Handbook of Industrial and Organizational Psychology*, 4: 103-172.
- Triandis, H. C. 1989. The self and social behavior in differing social contexts. *Psychological Review*, 96: 506-520.
- Trompenaars, A., & Hampden-Turner, C. 1998. *Riding the waves of culture: Understanding cultural diversity in global business (2nd ed.)*. New York: McGraw Hill.
- van Caenegem, R. C. 1987. *Judges, legislators, and professors: Chapters in European legal history*. New York: Cambridge University Press.
- van Inwagen, P. 1989. When is the Will free? *Philosophical Perspectives*, 3: 399-422.
- Veblen, T. 1909. The limitations of marginal utility. *Journal of Political Economy*, 17: 620-636.
- Wade, J., Porac, J., Pollock, T., & Graffin, S. 2006. The burden of celebrity: The impact of CEO certification contests on CEO pay and performance. *Academy of Management Journal*, 49: 643-660.
- Wagner, W. G., Pfeffer, J., & O'Reilly, C. A. 1984. Organizational demography and turnover in top management groups. *Administrative Science Quarterly*, 29: 74-92.

- Wallace, E. R. 1986. Determinism, possibility, and ethics. *Journal of the American Psychoanalytic Association*, 34: 933-974.
- Walsh, P. 1995. Managerial and organizational cognition: Notes from a trip down memory lane. *Organization Science*, 6: 280-321.
- Wasserman, N., Nohria, N., & Anand, B. 2001. When does leadership matter?: The contingent opportunities view of CEO leadership. *Working Paper. Harvard Business School*.
- Weber, M. 1924 (trans. 1947). *The theory of social and economic organization*. Glencoe, IL: Free Press & Falcon's Wing Press.
- Weick, K. 1979. *The social psychology of organizing (2nd ed.)*. Reading, MA: Addison-Wesley.
- Weiner, N. 1978. Situational and leadership influences on organizational performance. *Proceedings of the Academy of Management*: 230-234.
- Weiner, N., & Mahoney, T. 1981. A model of corporate performance as a function of environmental, organizational, and leadership influences. *Academy of Management Journal*, 24: 453-470.
- Whelan, C., & McBarnet, D. 1992. Lawyers in the market: Delivering legal services in Europe. *Journal of Law and Society*, 19: 49-68.
- Whitley, R. 1999. *Divergent capitalisms: The social structuring and change of business systems*. New York: Oxford University Press.
- Wiersema, M. F., & Bantel, K. A. 1992. Top management team demography and corporate strategic change. *Academy of Management Journal*, 35: 91-122.
- Williamson, O. E. 1963. Managerial discretion and business behavior. *American Economic Review*: 1032-1057.
- Willoughby, W. 1896. *An examination of the nature of the state: A study in political philosophy*. New York: The Macmillan Company.
- Wilson, W. 1889. *The state and federal governments of the United States: a brief manual for schools and colleges*. Boston: D.C. Heath & co.
- World Bank. 2007. World Development Indicators Database. Washington, DC.
- World Economic Forum. 2007. *Global Competitiveness Report 2007-2008*. World Economic Forum.

- Wright, P., Kroll, M., & Elenkov, D. 2002. Acquisition returns, increase in firm size, and chief executive officer compensation: The moderating role of monitoring. *Academy of Management Journal*, 45: 599-608.
- Yamamura, K., & Streeck, W. (Eds.). 2003. *The end of diversity? Prospects for German and Japanese capitalism*. Ithaca, NY: Cornell University Press.
- Yelpaala, K., Robino-Sammartano, M., & Campbell, D. 1986. *Drafting and enforcing contracts in civil and common law jurisdictions*. Boston, MA: Kluwer Law and Taxation Publishers.
- Zajac, E. J., & Westphal, J. D. 1996. Who shall succeed? How CEO/board preferences and power affect the choice of new CEOs. *Academy of Management Journal*, 39: 64-90.
- Zakaria, F. 2003. *The future of freedom: Illiberal democracy at home and abroad*. New York: W. W. Norton.
- Zhang, Y., & Rajagopalan, N. 2003. When the known devil is better than an unknown god: An empirical study of the antecedents and consequences of relay CEO succession. *Academy of Management Journal*, 47: 483-500.

APPENDIX A: FIGURES

FIGURE 1
National Institutions and Managerial Discretion

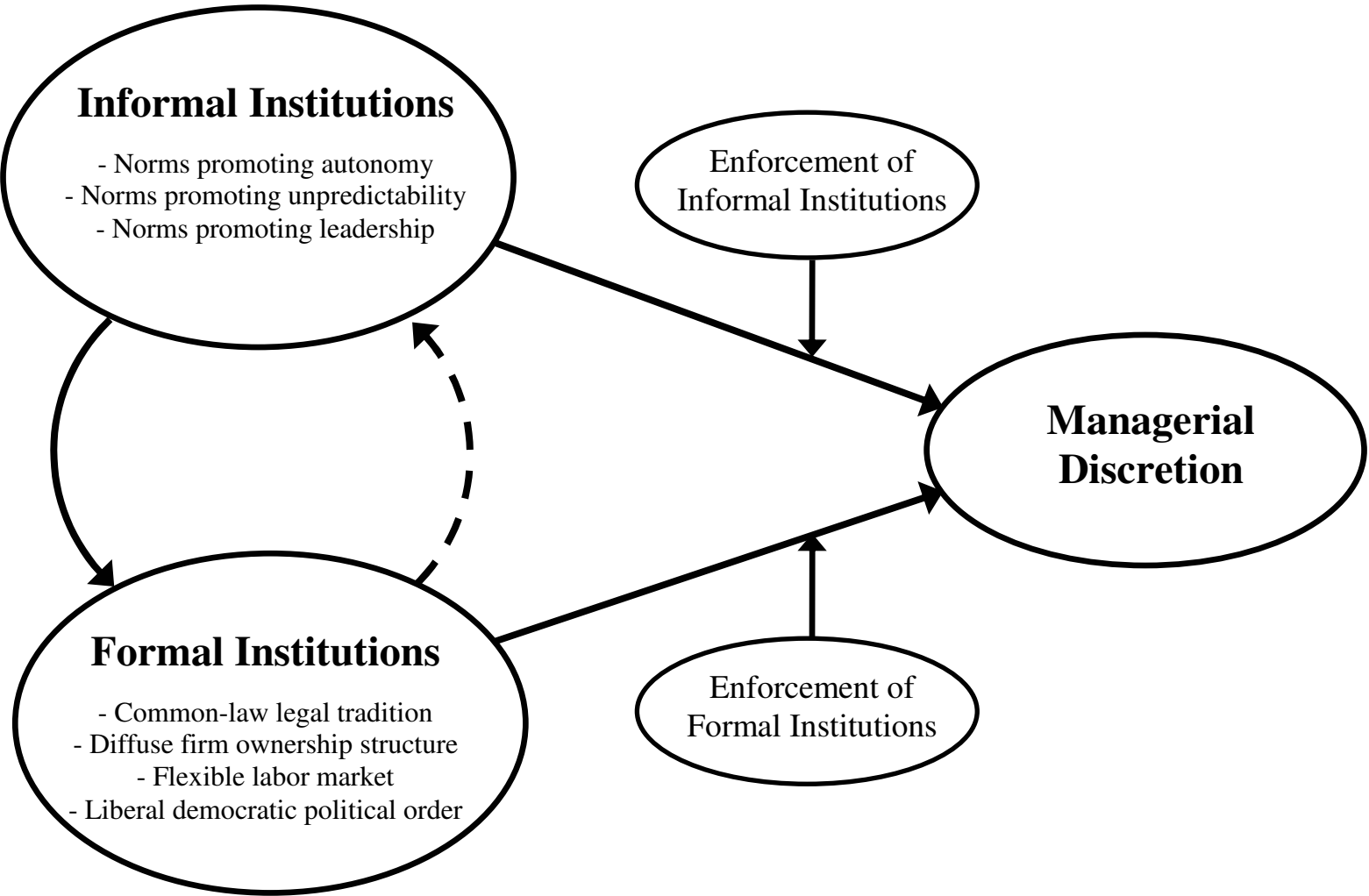


FIGURE 2
Consequences of Cross-national Differences in Managerial Discretion

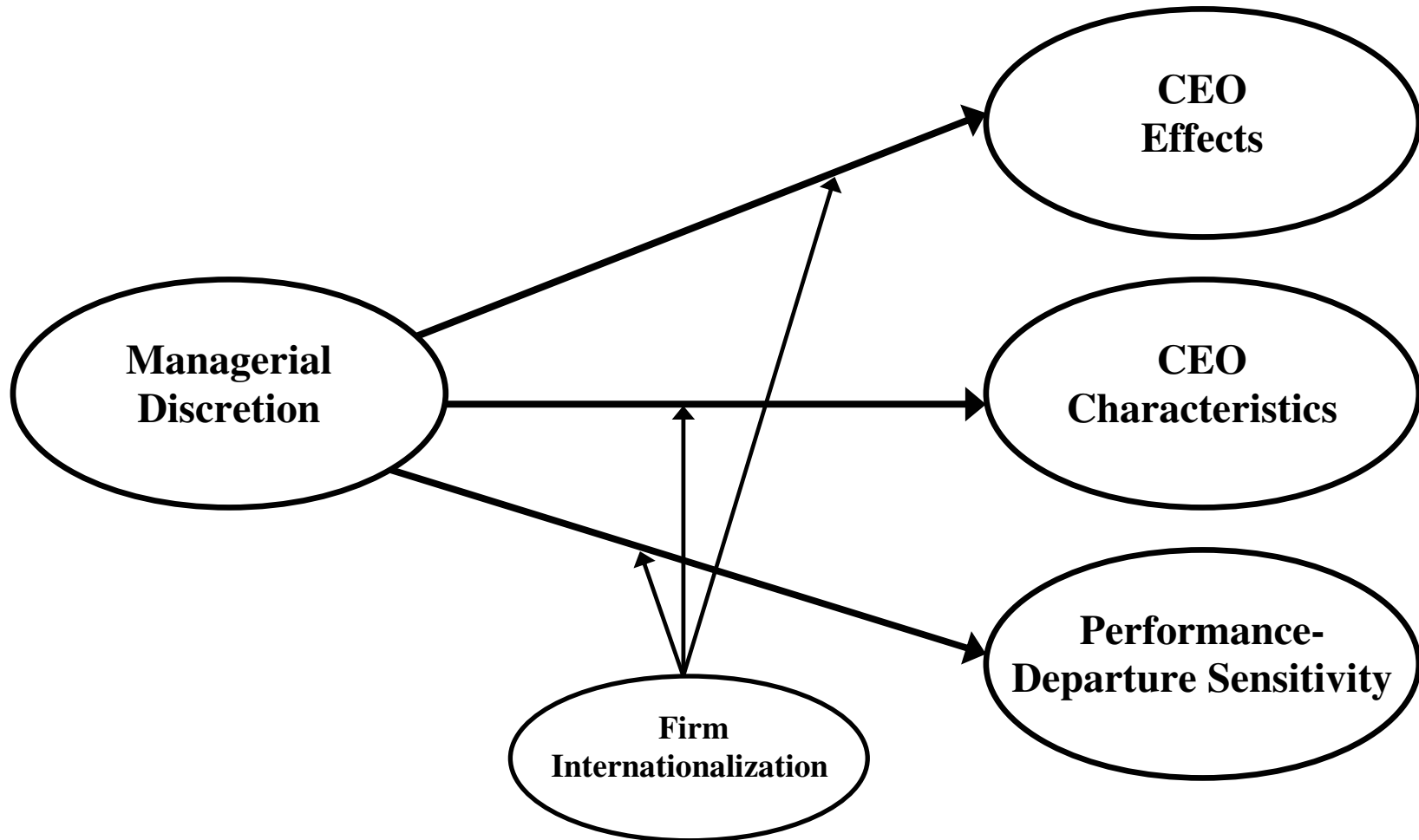


FIGURE 3
Country-level Relationship between Managerial Discretion and CEO Effects

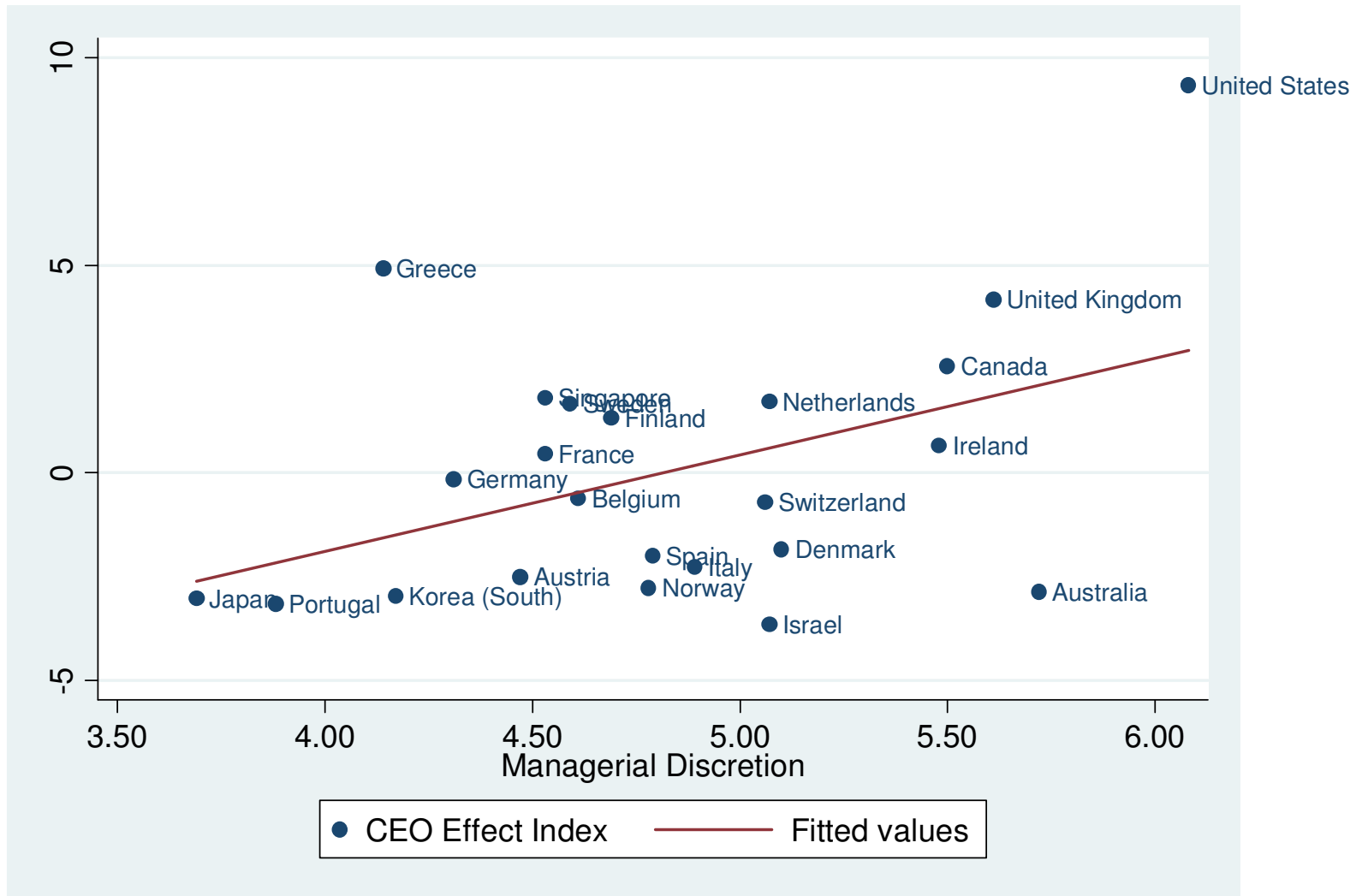


FIGURE 4
Median CEO Age at Entry, by Country

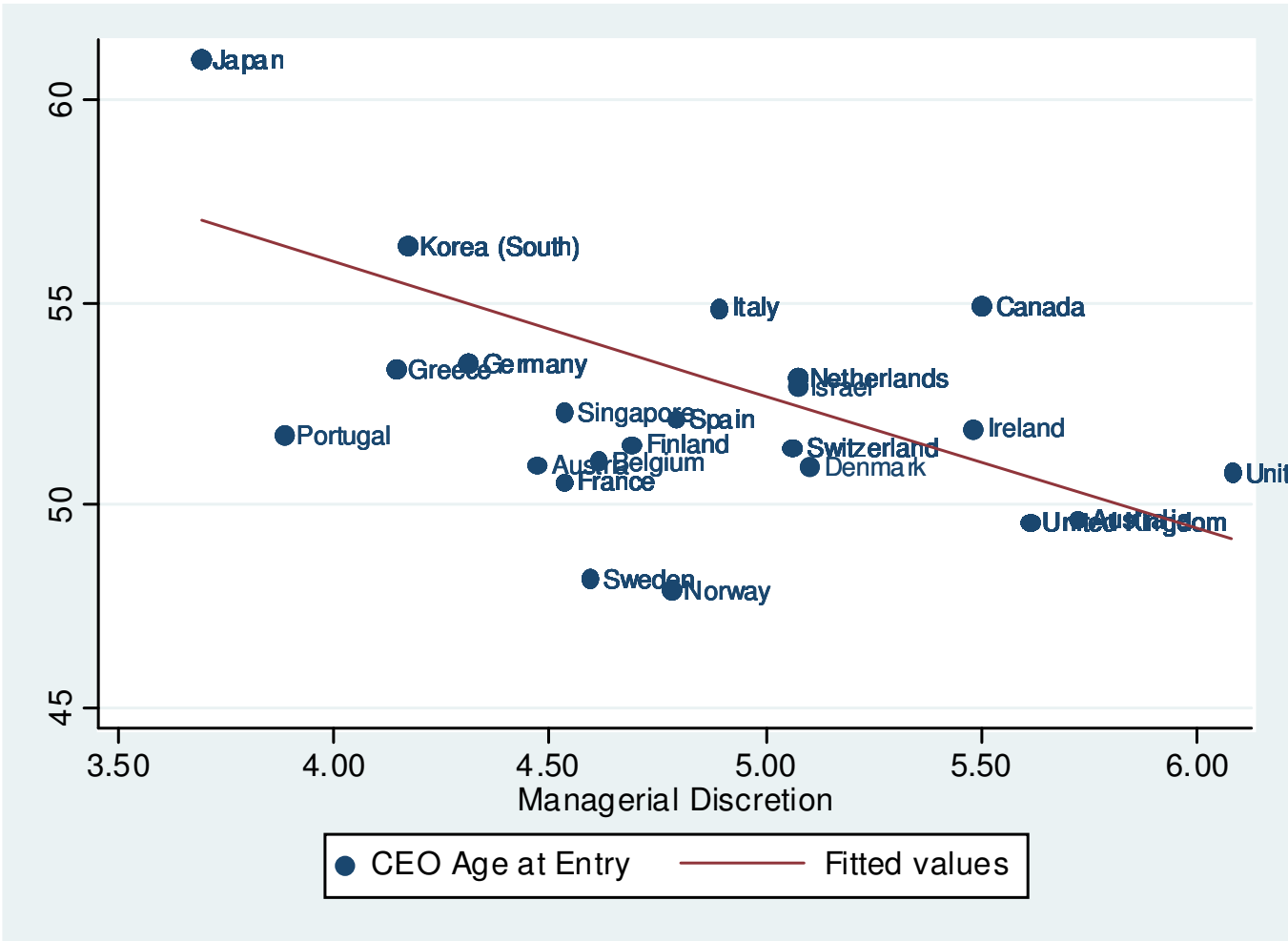


FIGURE 5
Heterogeneity of CEO Age at Entry, by Country

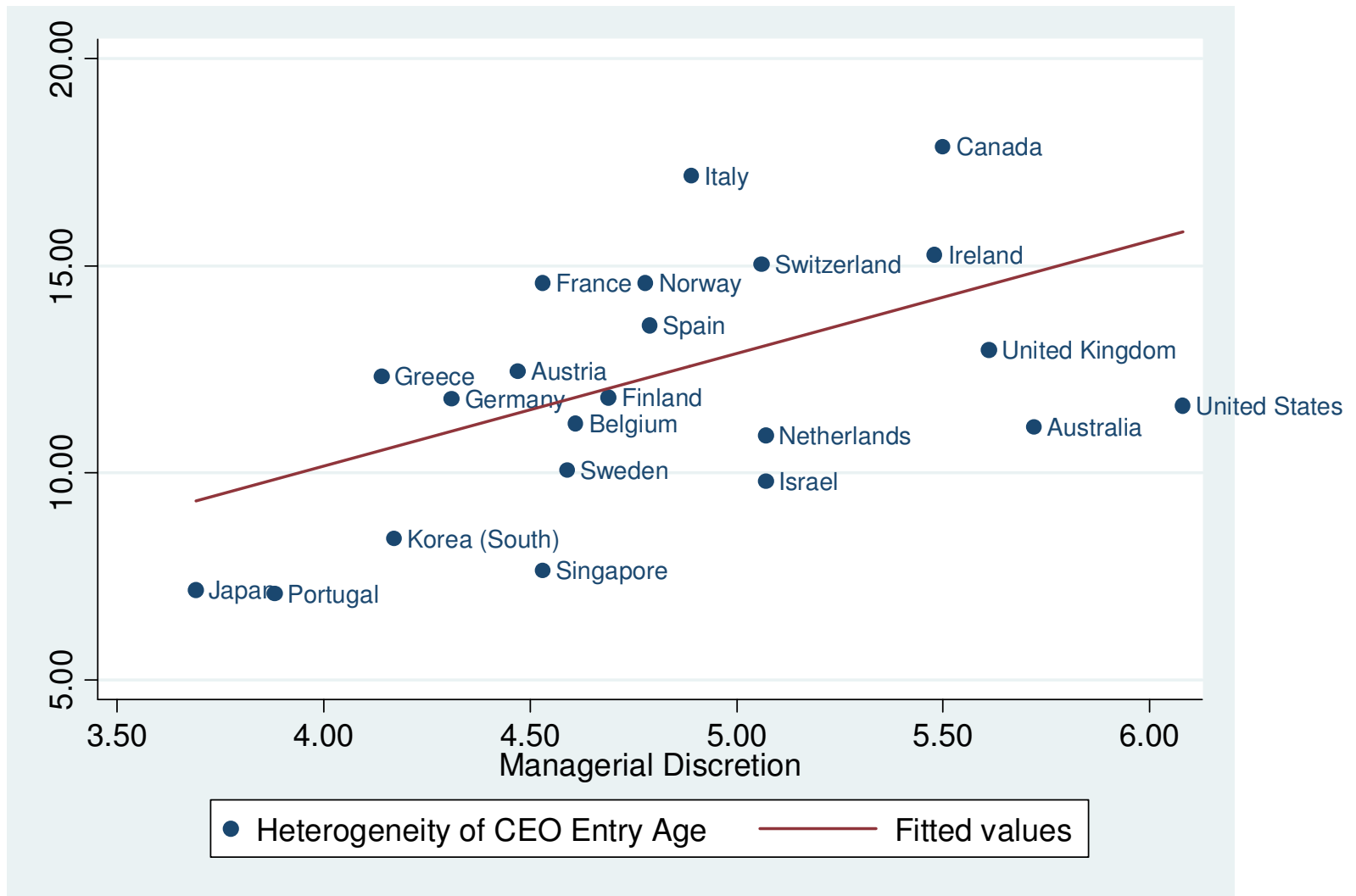


FIGURE 6
Managerial Discretion as a Moderator of the Firm Performance-CEO Departure Relationship

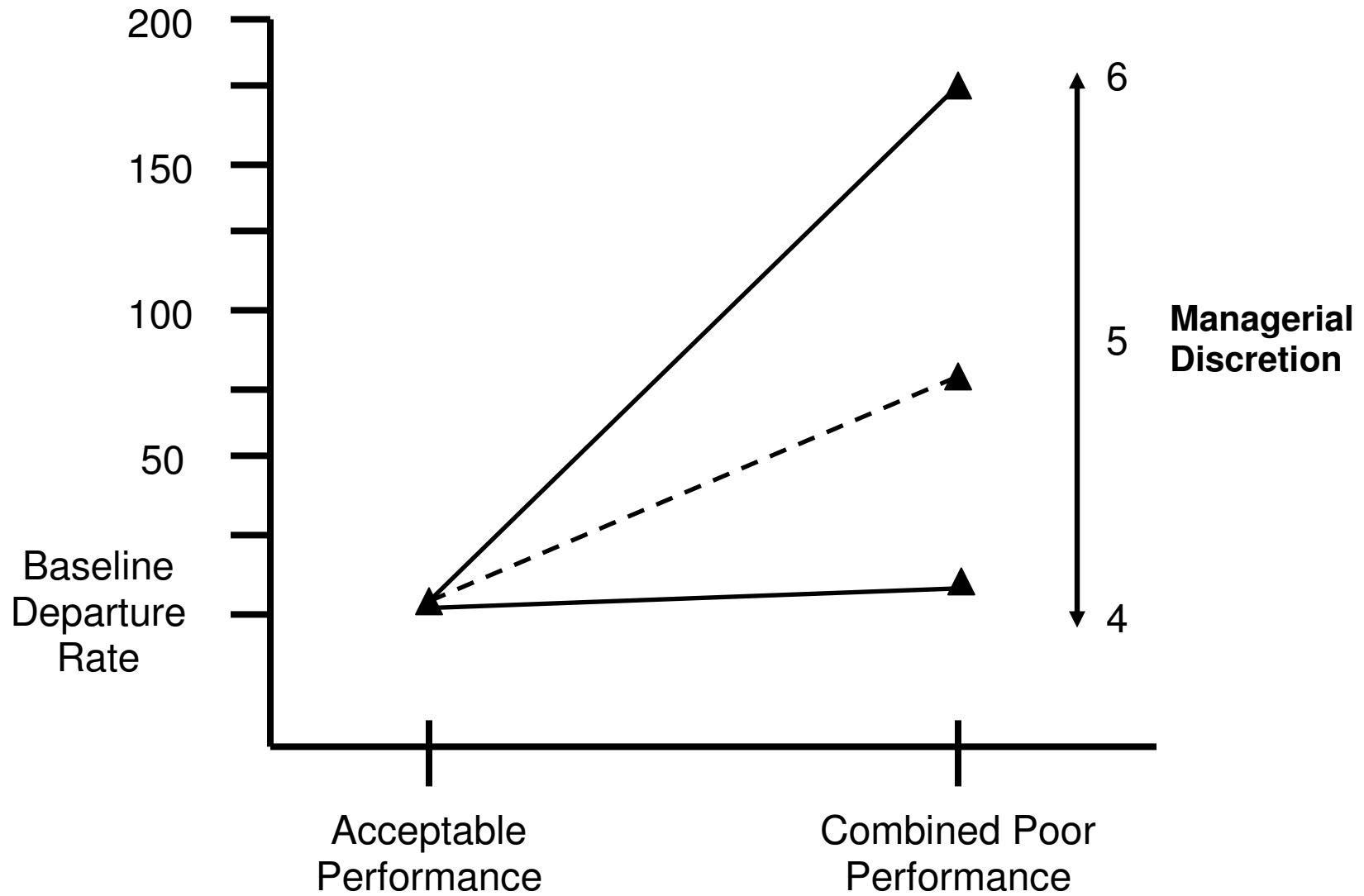


FIGURE 7
Magnitude of Performance Variance Attributable to CEO-level Factors, by Country (Longitudinal Sample)

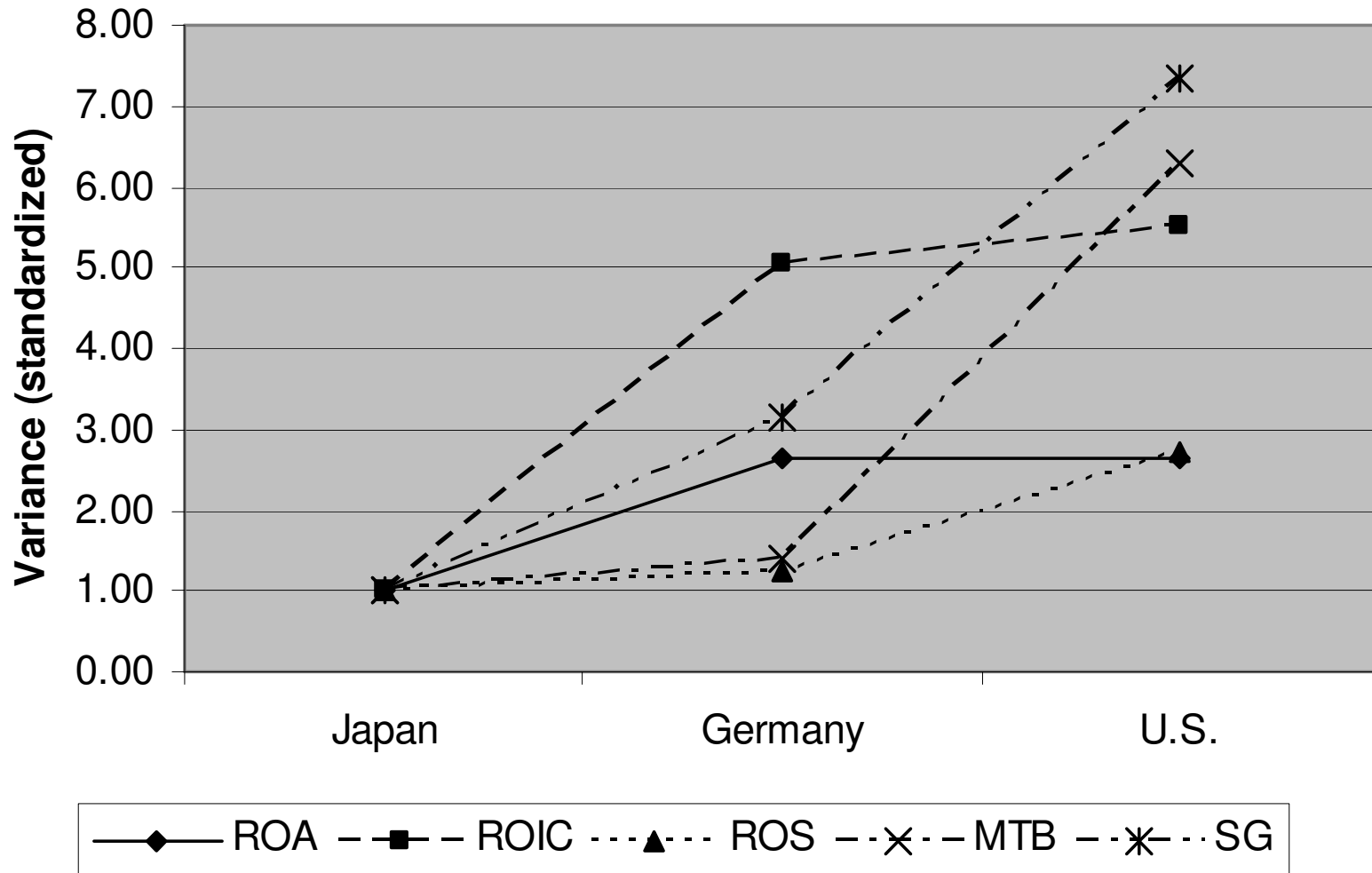


FIGURE 8
Country-level CEO Effects, by Performance Variable (Longitudinal Sample)

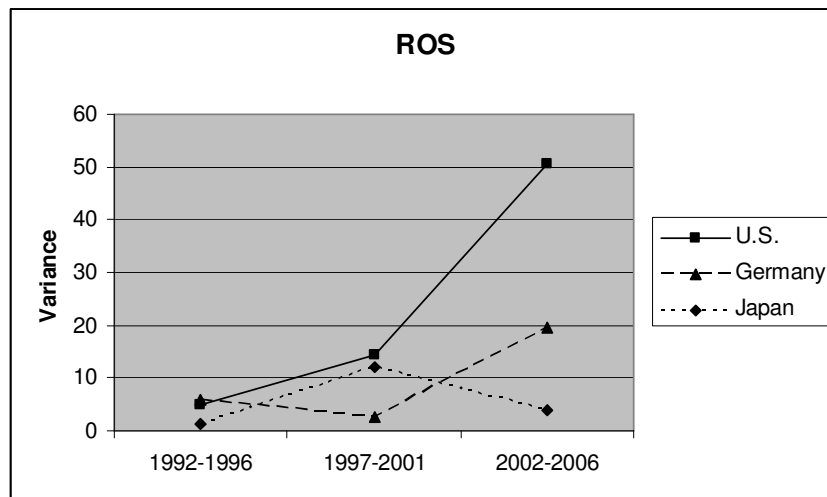
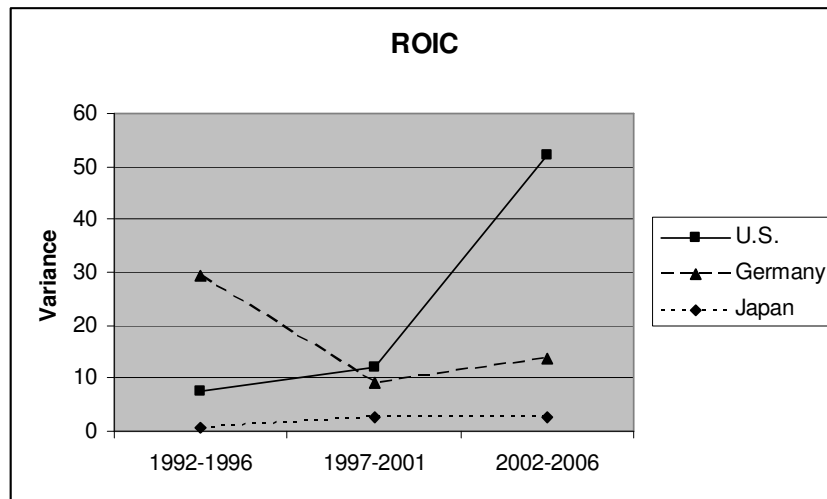
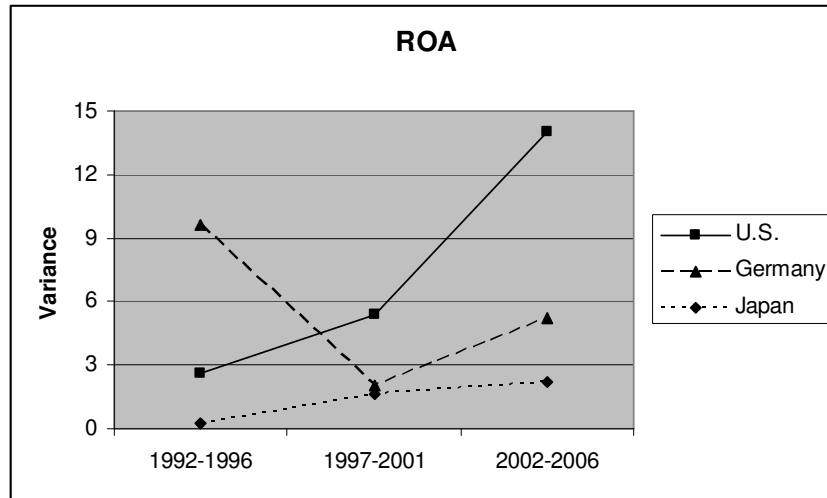


FIGURE 8 (cont.)
Country-level CEO Effects, by Performance Variable (Longitudinal Sample)

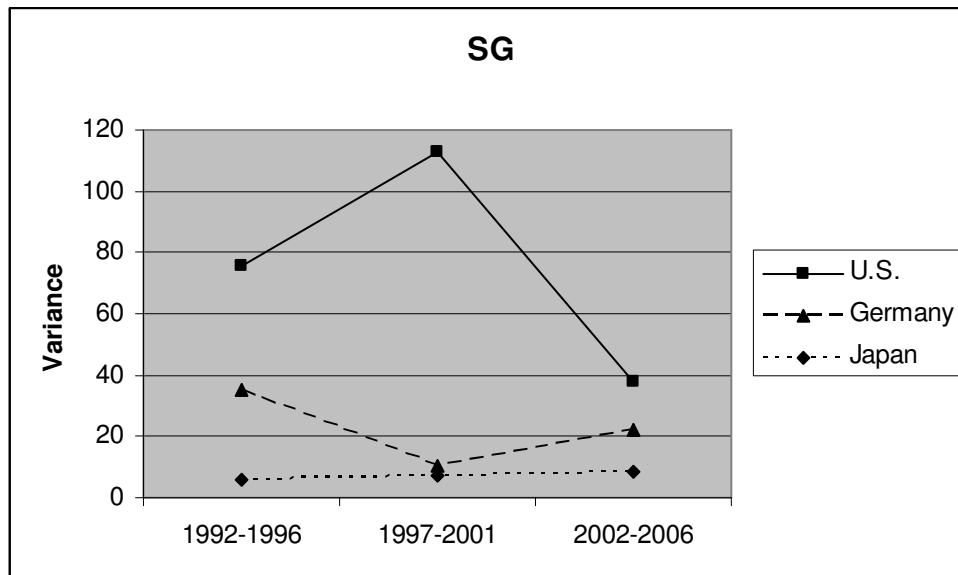
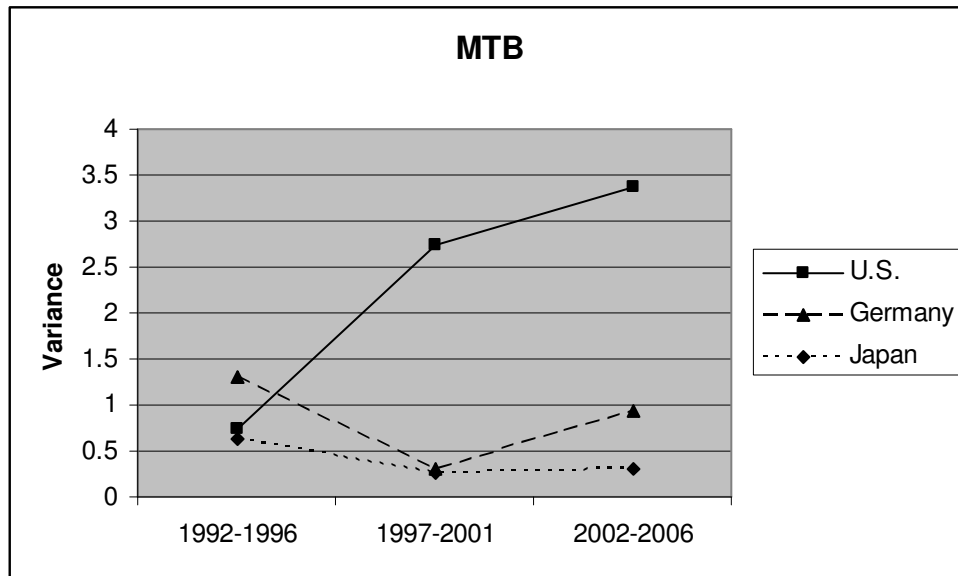
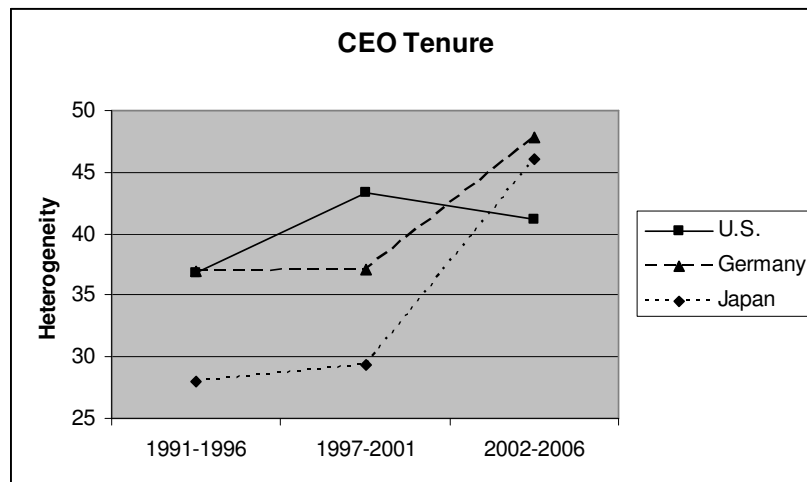
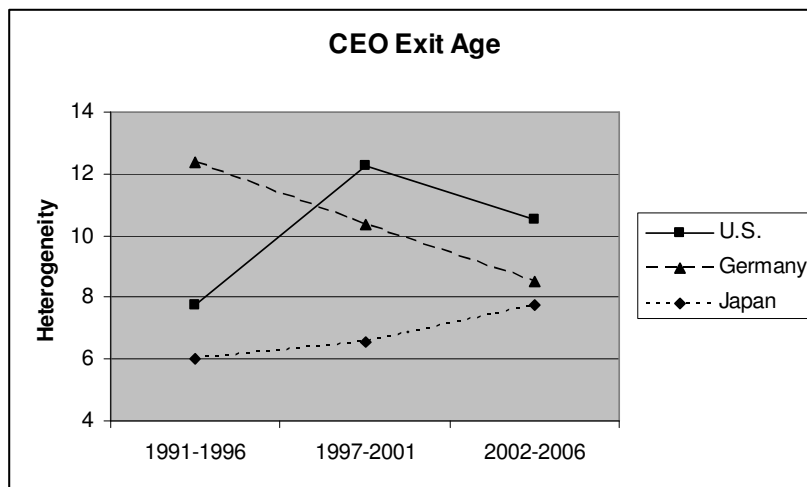
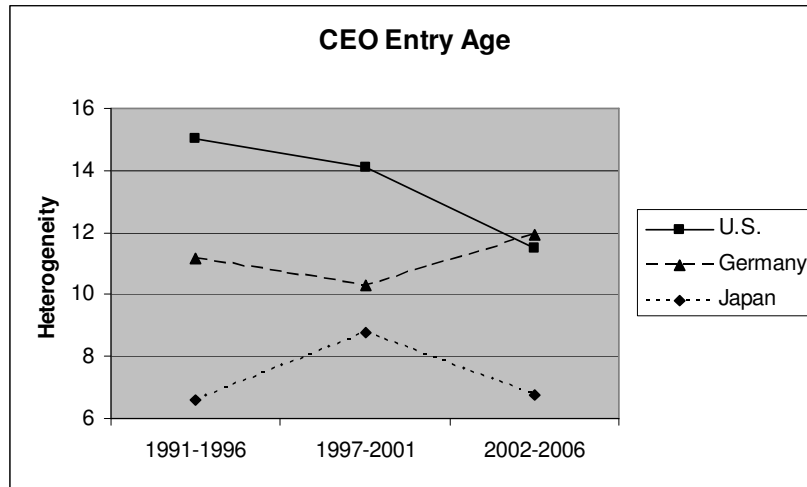


FIGURE 9
Heterogeneity of CEO Entry Age, Exit Age, and CEO Tenure (Longitudinal Sample)



APPENDIX B: TABLES

TABLE 1
Summary of Propositions

Number	Proposition
1	The more that a society's norms promote autonomous actions, the greater the discretion available to CEOs of firms headquartered in that society.
2	The more that a society's norms promote unpredictable actions, the greater the discretion available to CEOs of firms headquartered in that society.
3	The more that a society's norms promote the role of leadership, the greater the discretion available to CEOs of firms headquartered in that society.
4	Strong informal norm enforcement in a society will amplify the effect of informal institutions on managerial discretion.
5	Societies with a common-law legal tradition (compared to societies with a civil-law legal tradition) will provide greater discretion to CEOs of firms headquartered in that society.
6	The more that a society's prevailing firm ownership structure is diffuse, the greater the discretion available to CEOs of firms headquartered in that society.
7	The more that a society's labor markets are flexible, the greater the discretion available to CEOs of firms headquartered in that society.
8	The more that a society's political order is democratic and liberal, the greater the discretion available to CEOs of firms headquartered in that society.
9	Strong formal rule enforcement in a society will amplify the effect of formal institutions on managerial discretion.

TABLE 2
Sample of Firms by Industry and Country

Industry	AUS	AUT	BEL	CAN	DEN	FIN	FRA	GER	GRE	IRE	ISR	ITA	JAP	KOR
Aerospace & Defense	0	0	0	1	0	0	2	0	0	0	0	1	0	0
Banking	5	3	3	7	3	1	5	4	7	3	5	17	22	8
Business Services and Supplies	0	0	0	1	0	0	1	0	0	0	0	1	5	1
Capital Goods	0	0	0	0	0	1	3	4	0	0	0	1	8	3
Chemicals	1	0	1	3	0	0	2	3	0	0	1	0	5	4
Conglomerates	1	0	0	0	0	0	0	1	0	0	0	0	0	0
Construction	2	0	0	0	0	1	6	3	0	1	0	2	4	3
Consumer Durables	0	0	0	1	0	0	5	5	0	0	0	2	8	3
Diversified Financials	6	0	1	3	0	0	5	5	0	0	1	2	11	2
Drugs & Biotechnology	1	0	1	0	3	0	1	3	0	0	1	0	3	0
Food Markets	2	0	2	4	0	1	1	1	0	0	0	0	0	0
Food, Drink, & Tobacco	3	0	1	0	2	0	2	2	1	1	0	1	2	2
Health Care Equipment & Services	0	0	0	0	0	0	1	2	0	0	0	0	2	0
Hotels, Restaurants & Leisure	1	0	0	0	0	0	2	1	1	0	0	1	0	1
Household & Personal Products	0	0	0	0	0	0	3	4	0	0	0	1	3	1
Insurance	3	2	0	4	0	1	4	4	0	1	0	6	2	1
Materials	2	1	1	10	0	5	3	2	0	0	0	0	4	3
Media	1	0	0	3	0	2	3	1	0	0	0	1	4	0
Oil & Gas Operations	2	1	0	10	0	1	2	0	1	0	0	2	2	2
Retailing	0	0	0	3	0	0	1	1	0	0	0	0	1	1
Semiconductors	0	0	0	0	0	0	0	1	0	0	0	0	0	2
Software & Services	0	0	0	0	0	0	2	1	0	0	0	0	2	0
Technology Hardware & Equipment	0	0	0	2	0	1	3	0	0	0	0	0	1	0
Telecommunications Services	1	1	1	3	1	0	1	1	1	0	0	1	0	1
Trading Companies	0	0	1	0	0	0	1	0	0	0	0	0	2	5
Transportation	1	0	0	3	2	0	3	3	0	1	0	2	5	3
Utilities	1	2	0	2	0	0	4	4	1	0	0	4	4	2
Total	33	10	12	60	11	14	66	56	12	7	8	45	100	48

TABLE 2 (cont.)
Sample of Firms by Industry and Country

Industry	NED	NOR	POR	SIN	SPA	SWE	SWI	UK	US	Total
Aerospace & Defense	0	0	0	1	0	0	0	1	0	6
Banking	1	1	1	3	7	4	8	6	12	136
Business Services and Supplies	3	0	0	0	0	1	2	4	4	23
Capital Goods	0	0	0	1	1	6	2	1	3	34
Chemicals	2	1	0	0	0	0	3	2	4	32
Conglomerates	1	1	1	1	0	0	0	1	0	7
Construction	1	0	1	0	5	3	1	6	2	41
Consumer Durables	0	0	0	0	0	1	0	0	2	27
Diversified Financials	3	0	1	2	1	2	3	11	10	69
Drugs & Biotechnology	0	0	0	0	0	0	3	2	3	21
Food Markets	1	0	0	0	0	0	0	3	0	15
Food, Drink, & Tobacco	2	1	0	0	1	0	1	9	6	37
Health Care Equipment & Services	0	0	0	0	0	0	2	2	6	15
Hotels, Restaurants & Leisure	0	0	0	0	0	0	0	8	1	16
Household & Personal Products	0	0	0	0	1	0	3	1	3	20
Insurance	1	1	0	0	1	0	6	6	5	48
Materials	1	1	0	0	1	3	1	7	4	49
Media	2	0	0	1	0	0	0	6	2	26
Oil & Gas Operations	1	2	0	1	3	0	0	2	3	35
Retailing	0	0	0	0	0	1	0	8	5	21
Semiconductors	0	0	0	0	0	0	1	0	2	6
Software & Services	1	0	0	0	0	0	0	1	2	9
Technology Hardware & Equipment	0	0	0	0	0	1	0	0	1	9
Telecommunications Services	1	1	1	1	1	2	1	1	3	24
Trading Companies	1	0	0	0	0	0	0	1	0	11
Transportation	1	0	1	2	2	1	1	2	3	36
Utilities	0	0	1	0	5	0	1	9	14	54
Total	23	9	7	13	29	25	39	100	100	827

TABLE 3
National-level Managerial Discretion Scores for 15 Countries, Based on Expert Panel Data

Country	Managerial Discretion
United States	6.08
Australia	5.72
United Kingdom	5.61
Canada	5.50
Netherlands	5.07
Switzerland	5.06
Italy	4.89
Spain	4.79
Sweden	4.59
France	4.53
Singapore	4.53
Austria	4.47
Germany	4.31
South Korea	4.17
Japan	3.69

TABLE 4
Descriptive Statistics and Bivariate Correlations for National Institutions Data

Variable	Mean	s.d.	1.	2.	3.	4.	5.
1. Managerial discretion	4.87	0.65	----				
2. Individualism-Collectivism	64.87	23.03	.74**	----			
3. Tolerance for uncertainty ^a	59.13	24.06	.45 ⁺	.16	----		
4. Common law legal tradition ^b	0.33	0.49	.70**	.29	.66**	----	
5. Labor market flexibility	0.58	0.27	.67**	.21	.43	.87**	----
6. Institutions index	0.00	3.13	.84**	.56*	.71**	.93**	.84**

n = 15; ⁺p < .1, * p < .05, ** p < .01

^aInverse of uncertainty avoidance

^b1 = Common law legal tradition; 0 = Civil law legal tradition

TABLE 5
Mean and Imputed Managerial Discretion Scores for 23 Countries

Country	Managerial Discretion
United States	6.08
Australia	5.72
United Kingdom	5.61
Canada	5.50
Ireland	5.48 ^a
Denmark	5.10 ^a
Netherlands	5.07
Israel	5.07 ^a
Switzerland	5.06
Italy	4.89
Spain	4.79
Norway	4.78 ^a
Finland	4.69 ^a
Belgium	4.61 ^a
Sweden	4.59
France	4.53
Singapore	4.53
Austria	4.47
Germany	4.31
South Korea	4.17
Greece	4.14 ^a
Portugal	3.88 ^a
Japan	3.69

^aDiscretion score imputed based on index of national institutions

TABLE 6
Summary of Variables

Level	Variable	Description	Source	Sample Details
CEO	Date of departure	Month and year CEO left office	Press releases, regulatory filings, annual reports, news media	1380 CEOs in sample; 539 departures 2001-2006
	Age at entry	CEO's age (in years) when entering office	Press releases, regulatory filings, annual reports, news media	1380 CEOs in sample; 508 CEOs entering 2001-2006
	Heterogeneity of entry age	s.d. (entry age) / mean (entry age) * 100	Press releases, regulatory filings, annual reports, news media	22 national-level heterogeneity scores
	Age at exit	CEO's age (in years) when leaving office	Press releases, regulatory filings, annual reports, news media	1380 CEOs in sample; 539 CEOs exiting 2001-2006
	Heterogeneity of exit age	s.d. (exit age) / mean (exit age) * 100	Press releases, regulatory filings, annual reports, news media	22 national-level heterogeneity scores
	CEO tenure	Log of CEO's tenure (in years and months) when leaving office	Press releases, regulatory filings, annual reports, news media	1380 CEOs in sample; 539 CEOs departing 2001-2006
	Heterogeneity of CEO tenure	s.d. (exit age) / mean (exit age) * 100	Press releases, regulatory filings, annual reports, news media	22 national-level heterogeneity scores
Firm	Financial year-end	Month of financial year-end	Worldscope database via Datastream	Annual data for 827 firms
	Return on assets	Net income divided by total assets (annual 2000-2006)	Worldscope database via Datastream	Annual data for 827 firms
	Market-to-book ratio (Pseudo-Tobin's Q)	Market price at year-end divided by book value per share (annual 2000-2006)	Worldscope database via Datastream	Annual data for 827 firms
	Negative net income	Binary variable: negative income (annual 2000-2006)	Worldscope database via Datastream	Annual data for 827 firms
	Return on invested capital	Net income divided by (total capital + short-term debt) (annual 2000-2006)	Worldscope database via Datastream	Annual data for 827 firms
	Return on sales	Net income divided by total sales (annual 2000-2006)	Worldscope database via Datastream	Annual data for 827 firms

TABLE 6 (cont.)
Summary of Variables

Level	Variable	Description	Source	Sample Details
Firm (cont.)	Sales growth	(Sales in year t – sales in year t-1) divided by (sales in year t-1) (annual 2000-2006)	Worldscope database via Datastream	Annual data for 827 firms
	Sales	Log net sales, converted into U.S. dollars (annual 2000-2006)	Worldscope database via Datastream	Annual data for 827 firms
	Total assets	Log total assets, converted into U.S. dollars (annual 2000-2006)	Worldscope database via Datastream	Annual data for 827 firms
	Market capitalization	Log of (price per share at year-end * number of shares outstanding), converted into U.S. dollars (annual 2000-2006)	Worldscope database via Datastream	Annual data for 827 firms
	Employees	Log total employees at year-end (annual 2000-2006)	Worldscope database via Datastream	Annual data for 827 firms
	Firm size index	Sum of z(sales) + z(assets) + z(market capitalization) + z(employees)	Worldscope database via Datastream	Annual data for 827 firms
	Foreign sales to total sales (FSTS)	Non-domestic sales divided by total sales (annual 2000-2006)	Worldscope database via Datastream	Annual data for 827 firms
	Foreign assets to total assets (FATA)	Non-domestic assets divided by total assets (annual 2000-2006)	Worldscope database via Datastream	Annual data for 827 firms
	Firm internationalization index	Sum of z(FSTS) + z(FATA)	Worldscope database via Datastream	Annual data for 827 firms
	Closely-held shares	Number of shares held by insiders divided by total number of shares (annual 2000-2006)	Worldscope database via Datastream	Annual data for 827 firms
Ownership concentration	Percentage of shares held by single largest shareholder (NB: only available for 2005)	Worldscope database via Datastream	Annual data for 827 firms	
Industry	Industry sector	27 industry sectors as designated by Forbes	Forbes Global 2000	827 firms in 27 industries

TABLE 6 (cont.)
Summary of Variables

Level	Variable	Description	Source	Sample Details
Country	Managerial discretion	Interval-level scores of national discretion environments (1-7)	Expert academic panel survey	23 countries (15 rated directly, 8 imputed)
	Gross domestic product	Log of GDP per capita, converted into U.S. dollars (annual 2000-2006)	World Development Indicators database via World Bank	Annual data for 23 countries
	Listed domestic firms	Number of domestic firms listed on home stock exchanges (annual 2000-2006)	World Development Indicators database via World Bank	Annual data for 23 countries
	Size of listed firms	Log of total market capitalization of listed domestic firms, converted into U.S. dollars (annual 2000-2006)	World Development Indicators database via World Bank	Annual data for 23 countries
	Market development index	Sum of $z(\text{listed domestic firms}) + z(\text{size of listed firms})$	World Development Indicators database via World Bank	Annual data for 23 countries
	Unemployment	Total percentage of labor force unemployed (2000-2006)	World Development Indicators database via World Bank	Annual data for 23 countries
	CEO effect (magnitude)	Magnitude of variance in a firm performance variable (ROA, ROIC, ROS, MTB, Sales growth) attributable to CEO-level factors	Raw data gathered from Worldscope database via Datastream; CEO effect scores calculated using hierarchical linear modeling	23 national-level CEO effect (magnitude) scores for each performance variable
	CEO effect (proportion)	Proportion of total variance in a firm performance variable (ROA, ROIC, ROS, MTB, Sales growth) attributable to CEO-level factors	Raw data gathered from Worldscope database via Datastream; CEO effect scores calculated using hierarchical linear modeling	23 national-level CEO effect (proportion) scores for each performance variable

TABLE 7
Descriptive Statistics and Bivariate Correlations – CEO Effects Analyses

Variable	Mean	s.d.	n	1.	2.	3.	4.	5.	6.	7.
1. Managerial discretion	4.82	0.60	23	-----						
2. Return on assets	5.12	5.66	4009	.19**	-----					
3. Return on invested capital	8.44	9.30	4009	.20**	.93**	-----				
4. Return on sales	2.44	2.09	4009	.16**	.55**	.50**	-----			
5. Market-to-book	15.16	23.69	4009	.23**	.41**	.43**	.11**	-----		
6. Sales growth	8.49	12.21	4009	.07**	.16**	.13**	.11**	.02	-----	
7. Firm internationalization	0.50	0.50	4009	.04**	.05**	.04*	-.15**	.10**	-.05**	-----

* p < .05, ** p < .01

TABLE 8
WLS Regression: The Impact of Managerial Discretion on Magnitude of Firm Performance Variance Attributable to CEO-level Factors, for Five Performance Variables

	ROA		ROIC		ROS		MTB		SG	
	Model 1a	Model 1b	Model 2a	Model 2b	Model 3a	Model 3b	Model 4a	Model 4b	Model 5a	Model 5b
Constant	-8.77 (8.58)	-48.49 (33.16)	-47.96 (32.09)	-125.16 (119.12)	-56.63 (34.34)	-319.97** (104.30)	-0.94 (1.28)	1.63 (4.37)	-62.25 (54.49)	297.49 (315.93)
Managerial discretion (MD)	3.32 ⁺ (1.76)	11.90 (7.12)	14.51* (6.59)	33.56 (25.62)	14.97* (7.09)	72.87** (22.54)	0.33 (0.26)	-0.09 (0.94)	20.91* (10.03)	-65.68 (67.68)
Firm internationalization		86.44 (70.73)		152.15 (252.38)		532.58* (213.06)		-5.79 (8.83)		-777.08 (676.55)
MD * Firm internationalization		-18.40 (14.89)		-37.11 (53.24)		-114.80* (45.02)		0.96 (1.86)		182.95 (141.96)
<i>F</i>	3.55 ⁺	1.76	4.85*	2.07	4.45*	4.64*	1.61	0.90	4.34*	1.72
<i>R</i> ²	0.15	0.22	0.19	0.25	0.18	0.42	0.07	0.12	0.17	0.21

n = 23; ⁺p < .1, *p < .05, **p < .01

TABLE 9
Magnitude of Performance Variance Attributable to CEO-level Factors, by Country

Country	Managerial discretion	Firm-years	ROA	ROIC	ROS	MTB	SG	Index
United States	6.08	485	19.37	73.34	97.44	1.85	48.75	9.35
Australia	5.72	161	1.55	5.42	6.19	0.38	12.64	-2.87
United Kingdom	5.61	471	9.14	37.21	43.99	2.11	52.17	4.17
Canada	5.50	292	9.75	26.37	17.91	2.30	27.23	2.57
Ireland	5.48 ^a	35	0.29	3.19	0.95	0.01	410.32	0.65
Denmark	5.10 ^a	55	0.25	0.75	0.12	0.17	186.09	-1.85
Netherlands	5.07	114	14.03	44.89	21.37	0.45	24.67	1.71
Israel	5.07 ^a	40	0.39	0.79	2.08	0.11	25.03	-3.65
Switzerland	5.06	195	2.59	9.89	50.24	0.19	19.49	-0.71
Italy	4.89	209	0.74	3.66	31.35	0.13	12.23	-2.28
Spain	4.79	144	0.50	1.46	6.84	1.13	27.45	-2.00
Norway	4.78 ^a	42	3.85	7.01	8.07	0.09	10.05	-2.78
Finland	4.69 ^a	69	14.43	38.13	8.60	0.87	11.72	1.31
Belgium	4.61 ^a	60	10.63	28.93	3.67	0.36	7.74	-0.63
Sweden	4.59	123	15.15	37.47	27.63	0.23	35.73	1.66
Singapore	4.53	65	17.23	42.72	15.85	0.25	44.22	1.80
France	4.53	329	8.48	17.84	23.78	0.82	42.32	0.45
Austria	4.47	48	1.13	5.76	0.60	0.05	108.74	-2.51
Germany	4.31	274	4.46	9.72	27.44	1.17	19.00	-0.15
South Korea	4.17	233	2.60	5.34	5.37	0.13	21.89	-2.98
Greece	4.14 ^a	60	17.57	71.14	2.58	2.18	27.85	4.93
Portugal	3.88 ^a	35	0.48	1.56	6.04	0.47	6.63	-3.16
Japan	3.69	470	3.07	4.06	5.39	0.19	9.47	-3.02
Total sample		4009	8.63	26.20	27.31	1.02	31.78	

^aDiscretion score imputed based on index of national institutions

TABLE 10
WLS Regression: The Impact of Managerial Discretion on Proportion of Total Firm Performance Variance Attributable to CEO-level Factors, for Five Performance Variables

	ROA		ROIC		ROS		MTB		Sales growth	
	Model 1a	Model 1b	Model 2a	Model 2b	Model 3a	Model 3b	Model 4a	Model 4b	Model 5a	Model 5b
Constant	15.80 (10.81)	-52.11 (61.72)	-0.53 (19.34)	41.91 (82.50)	-13.62 (29.85)	-152.81 (99.21)	3.44 (15.34)	12.93 (68.37)	-16.01 (17.80)	83.73 (78.39)
Managerial discretion (MD)	0.96 (2.18)	15.41 (13.22)	4.77 (3.96)	-4.73 (17.76)	5.80 (6.16)	36.25 (21.45)	3.51 (3.12)	-0.01 (14.63)	5.28 (3.96)	-17.98 (16.79)
Firm internationalization		147.51 (132.17)		-74.35 (173.88)		290.53 (202.30)		-14.59 (146.52)		-204.27 (167.89)
MD * Firm internationalization		-30.87 (27.73)		16.86 (36.71)		-62.36 (42.74)		6.01 (30.67)		46.63 (35.22)
<i>F</i>	0.19	0.47	1.45	0.27	0.88	1.05	1.26	0.61	1.78	1.26
<i>R</i> ²	0.01	0.07	0.06	0.04	0.04	0.14	0.06	0.09	0.08	0.17

n = 23; ⁺p < .1, *p < .05, **p < .01

TABLE 11
CEO Entry Age and Heterogeneity of CEO Entry Age, by Country

Country	Managerial discretion	CEOs	CEO entry age	Heterogeneity of CEO entry age
United States	6.08	40	50.85	11.62
Australia	5.72	20	49.27	11.10
United Kingdom	5.61	67	49.91	12.96
Canada	5.50	26	54.78	17.87
Ireland	5.48 ^a	5	50.52	15.26
Denmark	5.10 ^a	2	50.96	n/a
Netherlands	5.07	20	51.63	10.90
Israel	5.07 ^a	4	54.85	9.79
Switzerland	5.06	30	52.03	15.03
Italy	4.89	32	52.25	17.17
Spain	4.79	20	51.09	13.56
Norway	4.78 ^a	7	51.19	14.57
Finland	4.69 ^a	10	49.46	11.81
Belgium	4.61 ^a	6	51.29	11.19
Sweden	4.59	14	49.35	10.05
France	4.53	36	51.29	14.58
Singapore	4.53	8	51.68	7.62
Austria	4.47	6	52.53	12.45
Germany	4.31	35	51.07	11.79
South Korea	4.17	37	56.17	8.4
Greece	4.14 ^a	12	55.85	12.32
Portugal	3.88 ^a	5	49.3	7.08
Japan	3.69	66	60.46	7.16
Total sample		508	52.85	13.74

^aDiscretion score imputed based on index of national institutions

TABLE 12
Heterogeneity of CEO Exit Age and CEO Tenure, by Country

Country	Managerial discretion	CEOs	Heterogeneity of CEO exit age	Heterogeneity of CEO tenure
United States	6.08	51	11.23	44.86
Australia	5.72	15	7.92	49.40
United Kingdom	5.61	64	9.42	50.32
Canada	5.50	27	12.89	46.67
Ireland	5.48 ^a	4	3.28	47.08
Denmark	5.10 ^a	2	n/a	n/a
Netherlands	5.07	19	8.70	50.57
Israel	5.07 ^a	4	12.49	62.15
Switzerland	5.06	32	14.73	73.88
Italy	4.89	30	13.47	64.52
Spain	4.79	18	11.22	48.04
Norway	4.78 ^a	7	11.18	69.29
Finland	4.69 ^a	10	10.40	36.60
Belgium	4.61 ^a	9	4.55	39.71
Sweden	4.59	18	8.14	36.71
France	4.53	42	13.76	47.09
Singapore	4.53	8	19.88	79.02
Austria	4.47	5	2.24	75.29
Germany	4.31	35	8.15	44.02
South Korea	4.17	42	8.55	51.75
Greece	4.14 ^a	13	12.58	59.65
Portugal	3.88 ^a	7	9.44	50.28
Japan	3.69	77	7.76	46.01
Total sample		539	11.50	51.22

^aDiscretion score imputed based on index of national institutions

TABLE 13
Descriptive Statistics and Bivariate Correlations – CEO Characteristics Analyses

Variable	Mean	s.d.	n	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
1. Managerial discretion	4.82	0.60	23	-----											
2. CEO entry age	52.85	7.26	508	-.34**	-----										
3. CEO exit age	59.58	6.85	539	-.27**	.64**	-----									
4. CEO tenure (log)	1.64	0.84	539	.06	-.42**	.31**	-----								
5. Firm size index	0.02	3.24	4073	.03	.04	-.07	-.01	-----							
6. Prior firm performance	4.59	5.71	508	.19**	-.04	.03	.08	-.09	-----						
7. Firm internationalization	0.50	0.50	4073	.03	-.05	-.06	.06	.27**	.10	-----					
8. Closely-held shares	28.26	24.01	4073	-.32**	.02	-.01	-.05	-.22**	.01	-.07**	-----				
9. Ownership concentration	20.11	18.24	827	-.17**	-.07	-.06	-.02	-.14**	.03	-.06**	.77**	-----			
10. Gross domestic product (log)	26.96	1.25	115	.20*	.13**	.20**	.08	.07**	-.02	-.11**	-.26**	-.25**	-----		
11. Market development index	0.00	1.87	115	.41**	.12**	.15**	.06	-.01	.04	-.13**	-.35**	-.34**	.77**	-----	
12. Unemployment	6.45	2.42	115	-.12	-.11*	-.05	.12**	.14**	-.05	.02	.18**	.22**	.06	-.03	-----

* p < .05, ** p < .01

TABLE 14
GLS Regression: The Impact of Managerial Discretion on CEO Entry Age

	Model 1a	Model 1b	Model 1c
Constant	33.99* (17.35)	103.19** (18.51)	111.42** (18.14)
Firm size index	0.17 (0.12)	0.24* (0.11)	0.26* (0.11)
Prior firm performance	-0.07 (0.06)	-0.03 (0.05)	-0.03 (0.05)
Ownership concentration	-0.08** (0.03)	-0.04 (0.03)	-0.04 (0.03)
Closely-held shares	0.06** (0.02)	0.02 (0.02)	0.02 (0.02)
Firm internationalization index	-0.58 (0.81)	0.32 (0.76)	-6.67 (4.36)
Gross domestic product	0.83 (0.61)	-1.20* (0.61)	-1.13+ (0.61)
Market development index	-0.05 (0.43)	1.70** (0.44)	1.65** (0.44)
Unemployment	-0.38** (0.14)	-0.27* (0.13)	-0.25+ (0.13)
Managerial discretion (MD)		-4.41** (0.49)	-4.92** (0.58)
MD * Firm internationalization index			1.42 (0.87)
χ^2	77.22**	171.93**	175.47**
Pseudo-R ²	0.13	0.25	0.26

Note: Coefficients for industry dummy variables omitted; n = 508; +p < .1, *p < .05, **p < .01

TABLE 15**WLS Regression: The Impact of Managerial Discretion on Heterogeneity of CEO Entry Age, CEO Exit Age, and CEO Tenure**

	Heterogeneity of CEO entry age		Heterogeneity of CEO exit age		Heterogeneity of CEO tenure	
	Model 1a	Model 1b	Model 2a	Model 2b	Model 3a	Model 3b
Constant	0.17 (4.72)	11.05 (12.78)	3.81 (3.30)	-13.19 (13.54)	46.99** (14.39)	70.05 (50.11)
Managerial discretion (MD)	2.47* (0.98)	0.10 (2.75)	1.23+ (0.72)	4.71 (2.90)	0.90 (3.01)	-3.87 (10.73)
Firm internationalization		-24.85 (26.60)		42.37 (31.76)		-54.31 (114.70)
MD * Firm internationalization		5.30 (5.60)		-8.56 (6.60)		11.13 (23.96)
<i>F</i>	6.38*	2.31	2.97*	1.48	0.09	0.09
<i>R</i> ²	0.24	0.28	0.13	0.20	0.01	0.02

n = 22; +p < .1, * p < .05, ** p < .01

TABLE 16
Descriptive Statistics and Bivariate Correlations – Firm Performance-CEO Departure Analyses

Variable	Mean	s.d.	n	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.
1. Managerial discretion	4.82	0.60	23	-----												
2. Bottom-quartile ROA	0.25	0.43	4073	-.24**	-----											
3. Bottom-quartile MTB	0.25	0.43	4073	-.19**	.32**	-----										
4. Neg. net income	0.12	0.32	4073	-.02	.53**	.19**	-----									
5. Combined poor performance	0.05	0.22	4073	-.02	.40**	.40**	.63**	-----								
6. Firm size index	0.02	3.24	4073	.03	-.06**	-.21**	-.05**	-.08**	-----							
7. Firm internationalization	0.50	0.50	4073	.03	-.02	-.10**	.05**	.01	.27**	-----						
8. Closely-held shares	28.26	24.01	4073	-.32**	.05**	.08**	-.03	.01	-.22**	-.07**	-----					
9. Ownership concentration	20.11	18.24	827	-.17**	.02	.07**	-.05**	-.01	-.14**	-.06**	.77**	-----				
10. Gross domestic product (log)	26.96	1.25	115	.20*	.09**	.00	.01	.02	.07**	-.11**	-.26**	-.25**	-----			
11. Market development index	0.00	1.87	115	.41**	.01	-.06**	.00	.01	-.01	-.13**	-.35**	-.34**	.77**	-----		
12. Unemployment	6.45	2.42	115	-.12	-.01	-.09**	-.03	-.04**	.14**	.02	.18**	.22**	.06	-.03	-----	
13. CEO departure	0.13	0.34	4073	-.05**	.03*	.04**	.07**	.03*	.02	-.02	.00	.00	-.02	-.03	-.02	-----

* p < .05, ** p < .01

TABLE 17
Cox Regression: Firm Performance-CEO Departure Sensitivity, Return on Assets

	Model 1a	Model 1b	Model 1c
CEO age	1.09** (0.01)	1.09** (0.01)	1.09** (0.01)
Firm size index	1.04* (0.02)	1.04* (0.02)	1.04* (0.02)
Ownership concentration	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)
Closely-held shares	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)
Firm internationalization index	0.79* (0.08)	0.78* (0.08)	0.44 (0.32)
Gross domestic product	0.91 (0.09)	0.91 (0.09)	0.92 (0.09)
Market development index	0.91 (0.06)	0.92 (0.06)	0.92 (0.06)
Unemployment	0.94* (0.02)	0.94* (0.02)	0.94* (0.02)
Managerial discretion (MD)	1.14 (0.09)	1.03 (0.10)	0.98 (0.12)
Bottom-quartile Return on Assets (Low ROA)	1.27* (0.13)	0.34+ (0.23)	0.22+ (0.18)
MD * Low ROA		1.32* (0.18)	1.46* (0.25)
MD * Firm internationalization			1.13 (0.17)
Low ROA * Firm internationalization			2.72 (3.45)
MD * Low ROA * Firm internationalization			0.80 (0.21)
χ^2	226.35**	231.33**	232.39**
Log Pseudolikelihood	-3516.28	-3514.22	-3513.71

Note: Odds ratios for industry dummy variables omitted; Robust standard errors in parentheses
n = 4073; +p < .1, *p < .05, **p < .01

TABLE 18
Cox Regression: Firm Performance-CEO Departure Sensitivity, Market-to-Book

	Model 1a	Model 1b	Model 1c
CEO age	1.09** (0.01)	1.09** (0.01)	1.09** (0.01)
Firm size index	1.04* (0.02)	1.04* (0.02)	1.04** (0.02)
Ownership concentration	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)
Closely-held shares	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)
Firm internationalization index	0.81* (0.08)	0.81* (0.08)	0.52 (0.37)
Gross domestic product	0.91 (0.09)	0.91 (0.09)	0.91 (0.09)
Market development index	0.92 (0.06)	0.93 (0.06)	0.92 (0.06)
Unemployment	0.95* (0.02)	0.94* (0.02)	0.95* (0.02)
Managerial discretion (MD)	1.12 (0.09)	1.04 (0.09)	0.99 (0.11)
Bottom-quartile Market-to-Book (Low MTB)	1.26* (1.13)	0.38 (0.24)	0.36 (0.28)
MD * Low MTB		1.29+ (0.17)	1.32+ (0.22)
MD * Firm internationalization			1.10 (0.16)
Low MTB * Firm internationalization			0.86 (1.18)
MD * Low MTB * Firm internationalization			1.00 (0.29)
χ^2	223.12**	230.37**	233.69**
Log Pseudolikelihood	-3516.36	-3514.55	-3513.92

Note: Odds ratios for industry dummy variables omitted; Robust standard errors in parentheses
n = 4073; +p < .1, *p < .05, **p < .01

TABLE 19
Cox Regression: Firm Performance-CEO Departure Sensitivity, Negative Net Income

	Model 1a	Model 1b	Model 1c
CEO age	1.09** (0.01)	1.09** (0.01)	1.09** (0.01)
Firm size index	1.04* (0.02)	1.04* (0.02)	1.04** (0.02)
Ownership concentration	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)
Closely-held shares	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)
Firm internationalization index	0.78* (0.08)	0.78* (0.08)	0.46 (0.31)
Gross domestic product	0.90 (0.09)	0.91 (0.09)	0.91 (0.09)
Market development index	0.92 (0.06)	0.92 (0.06)	0.92 (0.06)
Unemployment	0.94* (0.02)	0.94* (0.02)	0.94* (0.02)
Managerial discretion (MD)	1.10 (0.09)	1.06 (0.09)	1.02 (0.10)
Negative net income (NegInc)	2.01** (0.26)	0.78 (0.61)	0.42 (0.42)
MD * NegInc		1.22 (0.19)	1.37 (0.28)
MD * Firm internationalization			1.11 (0.15)
NegInc * Firm internationalization			5.26 (8.28)
MD * NegInc * Firm internationalization			0.73 (0.23)
χ^2	265.48**	267.16**	269.28**
Log Pseudolikelihood	-3504.39	-3503.60	-3502.89

Note: Odds ratios for industry dummy variables omitted; Robust standard errors in parentheses
n = 4073; †p < .1, *p < .05, **p < .01

TABLE 20
Cox Regression: Firm Performance-CEO Departure Sensitivity, Combined Poor Performance

	Model 1a	Model 1b	Model 1c
CEO age	1.09** (0.01)	1.09** (0.01)	1.09** (0.01)
Firm size index	1.04* (0.02)	1.04* (0.02)	1.04* (0.02)
Ownership concentration	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)
Closely-held shares	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)
Firm internationalization index	0.79* (0.08)	0.79* (0.08)	0.49 (0.31)
Gross domestic product	0.91 (0.09)	0.91 (0.09)	0.91 (0.09)
Market development index	0.91 (0.06)	0.92 (0.06)	0.92 (0.06)
Unemployment	0.95* (0.02)	0.94* (0.02)	0.95* (0.02)
Managerial discretion (MD)	1.10 (0.09)	1.06 (0.09)	1.02 (0.10)
Combined poor performance (Poor)	1.82** (0.34)	0.11* (0.12)	0.08+ (0.11)
MD * Poor		1.80** (0.39)	1.90* (0.49)
MD * Firm internationalization			1.10 (0.14)
Poor * Firm internationalization			2.14 (5.14)
MD * Poor * Firm internationalization			0.87 (0.42)
χ^2	236.85**	248.50**	250.18**
Log Pseudolikelihood	-3513.88	-3510.28	-3509.98

Note: Odds ratios for industry dummy variables omitted; Robust standard errors in parentheses
n = 4073; +p < .1, * p < .05, ** p < .01

TABLE 21
Magnitude of Performance Variance Attributable to CEO-level Factors, by Country (Longitudinal Sample)

Country	Managerial discretion	Period	Firm-years	ROA	ROIC	ROS	MTB	Sales Growth
U.S.	6.08	All years	1306	4.65	17.02	12.06	2.64	50.24
		2002-2006	486	14.04	52.17	50.46	3.36	37.81
		1997-2001	453	5.35	12.20	14.49	2.73	112.56
		1991-1996	367	2.57	7.54	5.03	0.75	75.93
Germany	4.31	All years	755	4.66	15.66	5.57	0.59	21.39
		2002-2006	274	5.21	13.73	19.62	0.94	21.91
		1997-2001	257	2.00	9.26	2.45	0.31	10.27
		1991-1996	224	9.64	29.50	5.90	1.30	34.98
Japan	3.69	All years	1325	1.76	3.09	4.45	0.42	6.84
		2002-2006	486	2.19	2.71	3.95	0.30	8.25
		1997-2001	438	1.59	2.70	12.06	0.26	7.18
		1991-1996	401	0.26	0.58	1.18	0.62	5.98

TABLE 22
Descriptive Data: CEO Entry Age, Exit Age, and CEO Tenure, by Country and Time Period (Longitudinal Sample)

Country	Managerial discretion	Years	CEO entry age				CEO exit age				CEO tenure (log)			
			n	Mean	s.d.	COV	n	Mean	s.d.	COV	n	Mean	s.d.	COV
U.S.	6.08	All years	140	50.67	6.89	13.60	131	61.15	6.49	10.61	131	2.01	0.82	49.75
		2002-2006	41	50.88	5.84	11.48	44	59.77	6.28	10.51	44	1.87	0.77	41.18
		1997-2001	54	50.44	7.10	14.08	50	61.35	7.53	12.27	50	2.05	0.89	43.41
		1991-1996	45	50.74	7.62	15.02	37	62.52	4.84	7.74	37	2.12	0.78	36.79
Germany	4.31	All years	96	51.37	5.78	11.25	88	60.20	6.35	10.55	88	1.93	0.77	39.90
		2002-2006	34	50.98	6.09	11.95	28	60.56	5.16	8.52	28	1.82	0.87	47.80
		1997-2001	25	52.97	5.45	10.29	27	59.60	6.17	10.35	27	1.94	0.72	37.11
		1991-1996	37	50.64	5.66	11.18	33	60.39	7.46	12.35	33	2.00	0.74	37.00
Japan	3.69	All years	208	60.04	4.45	7.41	208	66.46	4.58	6.89	208	1.73	0.61	35.26
		2002-2006	85	60.59	4.09	6.75	77	65.72	5.10	7.76	77	1.63	0.75	46.01
		1997-2001	58	58.68	5.15	8.78	67	66.86	4.39	6.57	67	1.74	0.51	29.31
		1991-1996	65	60.53	4.01	6.62	64	66.93	4.02	6.01	64	1.82	0.51	28.02

TABLE 23
GLS Regression: The Impact of Time on the Managerial Discretion-CEO Entry Age Relationship (Longitudinal Sample)

	Model 1a	Model 1b	Model 1c
Constant	-9.52 (48.00)	-23.54 (50.45)	-66.46 (53.44)
Firm size index	0.10 (0.10)	0.11 (0.10)	0.14 (0.10)
Prior firm performance	-0.03 (0.07)	-0.03 (0.07)	-0.04 (0.07)
Ownership concentration	0.03 (0.02)	0.03 (0.02)	0.04 ⁺ (0.02)
Closely-held shares	-0.07 ^{**} (0.02)	-0.07 ^{**} (0.02)	-0.07 ^{**} (0.02)
Firm internationalization index	-0.16 (0.17)	-0.14 (0.17)	-0.10 (0.17)
Gross domestic product	2.98 ⁺ (1.61)	3.51 [*] (1.72)	4.78 ^{**} (1.79)
Market development index	-0.05 (0.63)	0.15 (0.67)	-0.66 (0.75)
Unemployment	-0.43 ⁺ (0.26)	-0.24 (0.34)	-0.52 (0.36)
Managerial discretion (MD)	-4.98 ^{**} (0.80)	-5.51 ^{**} (0.99)	-3.97 ^{**} (1.19)
Year 2000-2006		-0.62 (0.69)	5.65 [*] (2.79)
MD * Year 2000-2006			-1.32 [*] (0.57)
χ^2	438.38 ^{**}	439.97 ^{**}	450.70 ^{**}
Pseudo-R ²	0.50	0.50	0.51

Note: Coefficients for industry dummy variables omitted; n = 444; ⁺p < .1, ^{*}p < .05, ^{**}p < .01

TABLE 24
Cox Regression: Impact of Time on Firm Performance-CEO Departure Sensitivity, Return on Assets (Longitudinal Sample)

	Model 1a	Model 1b	Model 1c	Model 1d
CEO age	1.13** (0.01)	1.13** (0.01)	1.13** (0.01)	1.13** (0.01)
Firm size index	1.04* (0.02)	1.04* (0.02)	1.04+ (0.02)	1.04* (0.02)
Ownership concentration	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)
Closely-held shares	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)
Firm internationalization index	1.01 (0.04)	1.01 (0.04)	1.01 (0.04)	1.01 (0.04)
Gross domestic product	0.50* (0.16)	0.50* (0.16)	0.49* (0.16)	0.51* (0.17)
Market development index	1.02 (0.13)	1.01 (0.13)	1.04 (0.14)	1.01 (0.14)
Unemployment	0.90+ (0.06)	0.90+ (0.06)	0.91 (0.06)	0.90 (0.06)
Year 2000-2006	1.29* (0.15)	1.25 (0.17)	1.28* (0.15)	2.03 (1.24)
Managerial discretion (MD)	1.32 (0.27)	1.32 (0.27)	1.25 (0.26)	1.34 (0.32)
Bottom-quartile return on assets (Low ROA)	1.35* (0.16)	1.29 (0.21)	0.69 (0.39)	1.54 (1.18)
Low ROA * Year 2000-2006		1.11 (0.23)		0.25 (0.28)
MD * Low ROA			1.18 (0.15)	0.96 (0.17)
MD * Year 2000-2006				0.90 (0.11)
MD * Low ROA * Year 2000-2006				1.41 (0.36)
χ^2	397.27**	397.20**	395.16**	394.59**
Log Pseudolikelihood	-2902.78	-2902.67	-2902.03	-2901.06

Note: Odds ratios for industry dummy variables omitted; Robust standard errors in parentheses
n = 3559; +p < .1, *p < .05, **p < .01

TABLE 25
Cox Regression: Impact of Time on Firm Performance-CEO Departure Sensitivity,
Market-to-Book (Longitudinal Sample)

	Model 1a	Model 1b	Model 1c	Model 1d
CEO age	1.13** (0.01)	1.13** (0.01)	1.13** (0.01)	1.13** (0.01)
Firm size index	1.04+ (0.02)	1.04* (0.02)	1.04* (0.02)	1.04* (0.02)
Ownership concentration	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)
Closely-held shares	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)
Firm internationalization index	1.01 (0.04)	1.01 (0.04)	1.01 (0.04)	1.01 (0.04)
Gross domestic product	0.50* (0.16)	0.50* (0.16)	0.50* (0.16)	0.52* (0.17)
Market development index	1.02 (0.14)	1.02 (0.14)	1.02 (0.13)	0.99 (0.14)
Unemployment	0.91 (0.06)	0.91 (0.06)	0.91 (0.06)	0.90 (0.06)
Year 2000-2006	1.32* (0.16)	1.32* (0.18)	1.33* (0.17)	1.49 (0.93)
Managerial discretion (MD)	1.23 (0.25)	1.23 (0.25)	1.23 (0.25)	1.26 (0.30)
Bottom-quartile market-to-book (Low MTB)	0.92 (0.11)	0.92 (0.17)	0.93 (0.17)	0.50 (0.36)
Low MTB * Year 2000-2006		1.00 (0.23)		1.79 (1.84)
MD * Low MTB			1.00 (0.05)	1.15 (0.18)
MD * Year 2000-2006				0.98 (0.12)
MD * Low MTB * Year 2000-2006				0.87 (0.20)
χ^2	387.57**	388.22**	389.15**	395.92**
Log Pseudolikelihood	-2905.91	-2905.91	-2905.91	-2905.45

Note: Odds ratios for industry dummy variables omitted; Robust standard errors in parentheses
n = 3559; +p < .1, *p < .05, **p < .01

TABLE 26
Cox Regression: Impact of Time on Firm Performance-CEO Departure Sensitivity,
Negative Net Income (Longitudinal Sample)

	Model 1a	Model 1b	Model 1c	Model 1d
CEO age	1.13** (0.01)	1.13** (0.01)	1.13** (0.01)	1.13** (0.01)
Firm size index	1.05* (0.02)	1.05* (0.02)	1.05* (0.02)	1.05* (0.02)
Ownership concentration	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)
Closely-held shares	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)
Firm internationalization index	1.01 (0.04)	1.01 (0.04)	1.01 (0.04)	1.01 (0.04)
Gross domestic product	0.50* (0.16)	0.52* (0.17)	0.50* (0.16)	0.54* (0.18)
Market development index	1.03 (0.14)	1.01 (0.13)	1.03 (0.14)	0.98 (0.15)
Unemployment	0.91 (0.06)	0.90+ (0.06)	0.91 (0.06)	0.90 (0.06)
Year 2000-2006	1.32* (0.15)	1.19 (0.15)	1.32* (0.15)	1.99 (1.12)
Managerial discretion (MD)	1.24 (0.25)	1.29 (0.26)	1.24 (0.26)	1.38 (0.33)
Negative net income (Neg. Inc.)	1.63** (0.22)	1.22 (0.24)	1.59 (0.95)	3.24 (2.79)
Neg. Inc. * Year 2000-2006		1.82* (0.50)		0.16 (0.18)
MD * Neg. Inc.			1.00 (0.13)	0.80 (0.15)
MD * Year 2000-2006				0.89 (0.10)
MD * Neg. Inc. * Year 2000-2006				1.72* (0.46)
χ^2	403.34**	398.95**	403.46**	382.69**
Log Pseudolikelihood	-2899.97	-2897.24	-2899.97	-2894.77

Note: Odds ratios for industry dummy variables omitted; Robust standard errors in parentheses
n = 3559; +p < .1, * p < .05, ** p < .01

TABLE 27
Cox Regression: Impact of Time on Firm Performance-CEO Departure Sensitivity,
Combined Poor Performance (Longitudinal Sample)

	Model 1a	Model 1b	Model 1c	Model 1d
CEO age	1.13** (0.01)	1.13** (0.01)	1.13** (0.01)	1.13** (0.01)
Firm size index	1.04+ (0.02)	1.04* (0.02)	1.04+ (0.02)	1.04* (0.02)
Ownership concentration	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)
Closely-held shares	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)
Firm internationalization index	1.01 (0.04)	1.01 (0.04)	1.01 (0.04)	1.01 (0.04)
Gross domestic product	0.52* (0.16)	0.52* (0.17)	0.48* (0.15)	0.52* (0.17)
Market development index	1.01 (0.13)	1.01 (0.13)	1.05 (0.14)	1.00 (0.14)
Unemployment	0.91 (0.06)	0.91 (0.06)	0.91 (0.06)	0.90 (0.06)
Year 2000-2006	1.28* (0.15)	1.24+ (0.15)	1.27* (0.15)	1.90 (1.00)
Managerial discretion (MD)	1.26 (0.26)	1.26 (0.26)	1.19 (0.24)	1.31 (0.31)
Combined poor performance (Comb.)	1.28 (0.28)	0.69 (0.36)	0.17+ (0.17)	9.15 (23.23)
Comb. * Year 2000-2006		2.24 (1.28)		0.01 (0.03)
MD * Comb.			1.59* (0.37)	0.52 (0.33)
MD * Year 2000-2006				0.91 (0.10)
MD * Comb. * Year 2000-2006				3.53+ (2.44)
χ^2	395.25**	401.43**	381.97**	380.95**
Log Pseudolikelihood	-2905.54	-2904.31	-2903.00	-2900.34

Note: Odds ratios for industry dummy variables omitted; Robust standard errors in parentheses
n = 3559; +p < .1, * p < .05, ** p < .01

TABLE 28
Summary of Hypotheses

Number	Hypothesis	Supported
1	The greater the level of managerial discretion in a society, the greater the variance in firm performance attributable to CEOs.	Yes
2	The greater the level of managerial discretion in a society, the younger the CEO entry age.	Yes
3a	The greater the level of managerial discretion in a society, the greater the heterogeneity in CEO entry age.	Yes
3b	The greater the level of managerial discretion in a society, the greater the heterogeneity in CEO exit age.	Yes (Marginal)
3c	The greater the level of managerial discretion in a society, the greater the heterogeneity in CEO tenure.	No
4	Poor firm performance will be positively related to the likelihood of CEO departure.	Yes
5	The level of managerial discretion in a society will positively moderate the relationship between poor firm performance and the likelihood of CEO departure.	Yes
6	Firm internationalization will negatively moderate the relationship between managerial discretion and CEO effects.	No
7	Firm internationalization will positively moderate the relationship between managerial discretion and CEO entry age.	No
8a	Firm internationalization will negatively moderate the relationship between managerial discretion and heterogeneity of CEO entry age.	No
8b	Firm internationalization will negatively moderate the relationship between managerial discretion and heterogeneity of CEO exit age.	No
8c	Firm internationalization will negatively moderate the relationship between managerial discretion and heterogeneity of CEO tenure.	No
9	Firm internationalization will weaken (negatively moderate) the moderating impact of managerial discretion on the poor firm performance-CEO departure relationship.	No

APPENDIX C
Recruitment E-Mail for Expert Academic Panel

Dear Professor,

I am writing to request 3-4 minutes of your time for a research project that I'm currently undertaking. Professor Donald Hambrick and I are conducting an investigation into how the discretion of public company CEOs differs across countries. As part of this project we are surveying a small number of prominent scholars with expertise in cross-national business phenomena. With your expertise in this area, we would be very grateful if you could assist us by completing a brief online questionnaire. I understand that this must be a busy time of year, but we would greatly appreciate it if you could help us with this project.

If you are able to assist us, please click on the link below, which will take you to a page where we seek your informed consent before proceeding with the questionnaire.

<http://www.surveymonkey.com/xxxxxxxxxxxxxxxxxxxx>

Whether or not you wish to participate in this survey, I will be pleased to send you a summary of the results of the study. Please let me know if you do not wish to receive this summary.

Thank you in advance for your help.

Sincerely,
Craig

Craig Crossland
Ph.D. Candidate, Management & Organization Dept.
Smeal College of Business
Pennsylvania State University
Ph: (814) 863-0597
Fax: (814) 863-7261
<http://www.personal.psu.edu/crc198>

APPENDIX D

Informed Consent Form

Principal Investigator:

Craig Crossland, Ph.D. Candidate
439 Business Building
Pennsylvania State University
University Park, PA. USA 16802
+1 (814) 863 0597; crc198@psu.edu

Advisor:

Donald C. Hambrick, Smeal Chaired Professor of Management
414 Business Building
Pennsylvania State University
University Park PA. USA 16802
+1 (814) 863 0917; dch14@psu.edu

The purpose of this research study is to investigate how the managerial discretion of public company CEOs differs across countries. This study should take 3-4 minutes to complete. You will first be given a definition and description of managerial discretion. You will then be asked to answer several questions concerning your perception of the general level of discretion that exists in a number of different countries.

Your participation in this research, and any responses that you provide, will be treated as confidential. Your confidentiality will be kept to the degree permitted by the technology used. No guarantees can be made regarding the interception of data sent via the Internet by any third parties.

Any presentations or publications arising from this work will contain no personally identifiable information. Your participation in this research is voluntary and you may withdraw your participation at any time. You do not have to answer any questions that you do not wish to answer.

Please contact Craig Crossland at +1 (814) 863 0597 or crc198@psu.edu if you have any questions or concerns about this study.

If you wish to proceed, clicking “Next” will take you to the survey. Completion and submission of the survey implies your consent to participate in this research. Please print off this form to keep for your records.

APPENDIX E

Managerial Discretion Questionnaire

Managerial discretion is defined as *latitude of managerial action* (Hambrick & Finkelstein, 1987). A CEO with high discretion has a wide range of strategic actions from which to select and a wide range of options for implementing strategic actions. In contrast, a CEO with low discretion has a much narrower range of strategic options and is greatly restricted in how strategic choices may be implemented. Constraints on discretion may arise from both formal sources (e.g. laws) and informal sources (e.g. culture).

1. For each of the three countries listed, please indicate the extent to which – in your estimation – CEOs of public firms headquartered in that country possess discretion.

	1 (To a very small extent)	2	3	4 (To a moderate extent)	5	6	7 (To a very large extent)
Germany							
Japan							
United States							

I would now like you to answer this same question for any of the following countries with which you feel you have sufficient familiarity. Please answer for as many countries as you can.

2. For the countries listed, please indicate the extent to which – in your estimation – CEOs of public firms headquartered in that country possess discretion

	1 (To a very small extent)	2	3	4 (To a moderate extent)	5	6	7 (To a very large extent)
Australia							
Austria							
Canada							
France							
Italy							
Korea (South)							
Netherlands							
Singapore							
Spain							
Sweden							
Switzerland							
United Kingdom							

VITA
Craig Crossland

Craig received his Ph.D. in business administration, with a concentration in strategic management, from Pennsylvania State University's Smeal College of Business. He also has received an MBA from University College Dublin, Ireland, and a Bachelor of Physiotherapy from the University of Queensland, Australia. In July 2008, Craig will take up a position as an assistant professor of management in the McCombs School of Business at the University of Texas at Austin.

Craig's research interests lie in the fields of strategic management and international management, with a particular emphasis on top executives and their effects on organizational outcomes. He is currently studying managerial discretion, the extent to which top executives are able to influence their firms' strategic actions and eventual performance. Craig's work has been published, or is forthcoming, in *Strategic Management Journal*, *Organizational Behavior and Human Decision Processes*, *Academy of Management Best Paper Proceedings*, and several edited volumes.

Craig is quietly hopeful that this dissertation marks the start of a long and fruitful academic career. He lives in Austin, Texas, and remains single, which he is convinced is through no fault of his own.