



Contents lists available at ScienceDirect

Journal of Business Research



CEO influences on firms' strategic actions: A comparison of CEO-, firm-, and industry-level effects

Nicolas A. Zacharias^{*}, Bjoern Six¹, Dirk Schiereck², Ruth Maria Stock¹

Technische Universität Darmstadt, Hochschulstr. 1, 64289 Darmstadt, Germany

ARTICLE INFO

Article history:

Received 7 November 2013

Received in revised form 27 March 2015

Accepted 28 March 2015

Available online xxx

Keywords:

CEO influences

Strategic actions

Variance decomposition

Strategic leadership theory

Resource-based view

Industrial organization economics

ABSTRACT

This study investigates the importance of CEO-level effects for firms' strategic actions, compared with the impact of firm- and industry-level effects. Strategic actions reflect the firm's competitive initiatives and choices regarding financial issues and resource allocation. Drawing on strategic leadership theories, the resource-based view, industrial organization economics, and the reconciling approach of managerial discretion, this study proposes that the CEO's influence varies across different categories of strategic actions. By applying a variance decomposition approach to a 20-year sample of 110 firms in 10 industries, the authors reveal that for competitive initiatives, CEO-level effects are associated with the largest amount of variance, together with firm-level effects. Contrary to expectations, firm-level effects are most relevant for financial choices, followed by CEO effects. Resource allocation depends mainly on firm-level effects, rather than on CEO- or industry-level effects.

© 2015 Elsevier Inc. All rights reserved.

1. Introduction

Because chief executive officers (CEOs) wield dominant power and enjoy a prominent position on executive boards (Finkelstein, 1992), considerable research attempts to clarify whether, and in what conditions, CEOs influence organizational outcomes (e.g., Bowman & Helfat, 2001; Carpenter, Geletkanycz, & Sanders, 2004). This research stream shows that CEOs determine firm strategies, policies, and structures (Boeker, 1997; Miller & Toulouse, 1986; Papadakis & Barwise, 2002), as well as performance (Chatterjee & Hambrick, 2007; Miller & Toulouse, 1986).

Another important question relates to the relative performance implications of a CEO's influence. This question is central to strategic management and prompts contradictory explanations (Nadkarni & Barr, 2008; Porter, 1981). Advocates of a strategic leadership view argue that top executives make decisions and strongly influence a firm's strategic actions (Hambrick, 2007; Hambrick & Mason, 1984); industrial organization researchers instead refer to Mason's (1939) and Bain's (1956, 1968) structure–conduct–performance paradigm and argue that industry structure determines firm conduct (e.g., Porter, 1980, 1985). Motivated by the inability of this paradigm to explain intra-industry

variations, resource-based theorists posit that firm idiosyncrasies are responsible for differences in strategic actions (Wernerfelt, 1984).

To contribute to this debate, the present study posits that the key question is not whether CEO-level effects influence conduct and performance but rather to what extent CEO-level effects are more or less relevant to different strategic actions. The implications of CEO-level effects, relative to firm- and industry-level effects, largely depend on the outcomes. For example, CEOs might choose the number of acquisitions the firm pursues but have little influence over asset turnover or allocation, such that a CEO's influence depends on the strategic action. Strategic actions reflect the firm's long-term choices, which shape competitive advantages (Hoskisson, Hitt, Wan, & Yiu, 1999). Some strategic actions relate particularly to the firm's competitive initiatives (e.g., number of acquisitions; Ansoff, 1965; Cassiman & Veugelers, 2006), financial choices (e.g., investment ratio; Bertrand & Schoar, 2003), or resource allocation (e.g., total asset intensity; Rumelt, Schendel, & Teece, 1991). These critical decisions then shape firm behavior, define strategic directions (Rumelt et al., 1991), and ultimately determine firm performance (Reger, Duhaime, & Stimpert, 1992).

This study accordingly relies on variance decomposition to assess the relative importance of CEO, firm, and industry influences on strategic actions, as well as to explore influences across strategic actions. In an extensive review, Bowman and Helfat (2001) conclude that most studies use single performance measures to investigate top executives', versus year and firm, effects on performance. Crossland and Hambrick (2007) also investigate the effect of the CEO, firm, and industry on finance-oriented strategic variables, then call for a complementary investigation of a broader set of variables. In response to that call, the

^{*} Corresponding author. Tel.: +49 6151 16 76127; fax: +49 6151 16 7320.

E-mail addresses: zacharias@bwl.tu-darmstadt.de (N.A. Zacharias), sekretariat@stock-homburg.de (B. Six), schiereck@bwl.tu-darmstadt.de (D. Schiereck), rsh@stock-homburg.de (R.M. Stock).

¹ Tel.: +49 6151 16 7322; fax: +49 6151 16 7320.

² Tel.: +49 6151 16 4489; fax: +49 6151 16 5393.

current article investigates the relative importance of CEO-level effects for firms' strategic actions, compared with firm- and industry-level effects, and thereby contributes to management research in several respects.

First, building on and extending research into the impact of different levels (Brush, Bromiley, & Hendrickx, 1999; McGahan & Porter, 1997, 2002; Rumelt, 1991), this study integrates the top executive level with other theoretically important levels, to determine the relative influence of strategic decision makers on strategic actions (Mackey, 2008). Because top executives are the most influential persons in a firm (Flood, MacCurtain, & West, 2001; Mintzberg, 1979), and the CEO is likely the most powerful (Crossland & Hambrick, 2007; Hambrick, 2007), the focus on CEOs provides a comprehensive comparative portrait of influences across a broad set of strategic actions. The findings thus extend related literature in several respects. Many studies focus on the magnitude of the CEO effect, compared with the firm effect (e.g., Bertrand & Schoar, 2003); the current study adopts a broader perspective to explicitly contrast CEO, firm, and industry effects. Furthermore, to the best of the authors' knowledge, this study is the first investigation of the number of divestures, focusing divestures, and cross-border divestures as strategic actions. The findings reveal that the CEO effect is even stronger for divestiture decisions than for acquisitions.

Second, this study seeks to explain variation in strategic actions that likely influence firm performance, instead of firm performance directly. The proposed tripartite classification of a firm's strategic actions includes competitive initiatives, financial choices, and resource allocation. The deeper understanding of the importance of CEO-level effects for strategic actions, which reflect long-term decisions to ensure the survival of the firm (Nadkarni & Barr, 2008), in turn offers insights into fundamental firm behaviors and competitive positioning (Hoskisson et al., 1999; Rumelt et al., 1991). Furthermore, this effort to explain strategic actions reveals the level that actually determines the performance pathways firms take. This consideration of a broad set of strategic actions provides a more fine-grained understanding of the relative importance of CEO-level effects across different areas. For example, CEO-level effects are relevant for competitive initiatives but less critical in resource allocation decisions, for which other levels dominate. The insights derived from an investigation of multiple strategic actions thus are more detailed than the findings of previous variance decomposition studies.

Third, this study provides an important theoretical contribution related to the relative impact of the CEO across different categories of strategic actions. Building on strategic leadership theories, the resource-based view (RBV), and industrial organization economics, the authors propose that the CEO's impact varies across different areas of strategic actions and develop propositions regarding the relative importance of CEO, firm, and industry effects. Specifically, the managerial discretion of CEOs reflects the means–ends ambiguity of different categories of strategic actions, which in turn depends on the number of plausible alternatives available (Hambrick, 2007) and the degree of uncertainty surrounding the outcome of a specific strategic action (Finkelstein & Peteraf, 2007).

Fourth, the empirical investigations are based on longitudinal data: The data set includes observations from 319 CEOs working for the largest 110 publicly listed companies in Germany (all companies of the DAX and MDAX stock indices) in 10 industries, observed during 1983–2002. The well-established methodology provides support for the theoretical reasoning (e.g., Bertrand & Schoar, 2003; Crossland & Hambrick, 2007; Mackey, 2008).

2. Literature review

This study relies on variance decomposition to assess the relative importance of CEO, firm, and industry influences on strategic actions, as well as to explore the influences across strategic actions. Prior strategy research applied variance decomposition to assess the relative importance of industry, firm, and business segment factors in determining

performance differences among firms (e.g., McGahan & Porter, 1997; Rumelt, 1991; Schmalensee, 1985). Such research usually investigates the influences of the different levels on varying measures of business profitability, such as accounting or returns. In earlier leadership studies (e.g., Lieberman & O'Connor, 1972; Thomas, 1988; Weiner & Mahoney, 1981), researchers applied similar techniques to decompose industry, firm, and CEO effects, with the intention of partialling out the performance differences that individual CEOs induce (e.g., Lieberman & O'Connor, 1972; Thomas, 1988; Weiner & Mahoney, 1981). Although few cross-references occurred between these research traditions, the performance variables were largely the same. Bowman and Helfat (2001) provide an extensive review.

More recent strategy literature started to draw on both streams and integrate the CEO level into research agendas (e.g., Crossland & Hambrick, 2007, 2011; Mackey, 2008), thus expanding knowledge of the performance difference that the CEO, as the most influential (Flood et al., 2001; Mintzberg, 1979) and powerful (Crossland & Hambrick, 2007; Hambrick, 2007) person in a firm, can evoke. However, these studies mostly focus on differences in performance variables; only a few test the relative importance of drivers representing different levels on firm policies. For example, Crossland and Hambrick (2007) investigate the effect of the CEO, firm, and industry on finance-oriented strategic variables, such as the debt-to-equity ratio, fixed asset intensity, and total asset intensity. To advance the integration of the different streams, this article combines the top executive level with other theoretically important levels to determine the relative influence of strategic decision makers on strategic actions (Bowman & Helfat, 2001; Mackey, 2008).

3. Categorization of strategic actions

Strategic management research also needs systematic approaches that organize the bandwidth of a firm's strategic actions. According to Romanelli and Tushman (1988: 139), researchers must attend to the characteristics of strategic actions, “if we are to separate out relative influences of environments, organizations, and leadership on organizational outcomes.” Multiple categories of strategic actions appear in extant strategic management studies. For example, decisions pertaining to resource allocation issues (Hambrick & Finkelstein, 1987; Tushman & Romanelli, 1985) could relate to asset intensity or asset turnover decisions (Hambrick & Mason, 1984). Investigations of financial choices, such as a firm's capital resources (i.e., equity ratio), are prominent in strategic management literature (Hambrick & Mason, 1984). Some researchers also build on growing interest in competitive initiatives (e.g., Ferrier, 2001) and focus on the antecedents and effects of strategic alliances or the number of acquisitions (or diversifying acquisitions), which represents the extent to which a firm advances in a generally uncertain terrain (e.g., Bertrand & Schoar, 2003; Eisenhardt & Schoonhoven, 1996). This large body of research suggests three categories of strategic actions: competitive initiatives, financial choices, and resource allocation (Fig. 1).

The current investigation of strategic actions across the three categories thus includes a wide range of variables that represent important facets of a firm's overall conduct (e.g., Bertrand & Schoar, 2003; Rumelt, Schendel, & Teece, 1994). Only three measures (i.e., debt-to-equity, fixed asset intensity, and total asset intensity) appear in prior variance decomposition studies that incorporate all three levels—CEO, firm, and industry effects (Crossland & Hambrick, 2007). This gap leaves surprisingly little information about other strategic actions, such as competitive initiatives and resource allocation, despite their relevance in organizational behavior studies (Hambrick & Mason, 1984). By investigating multiple strategic actions in different areas, this study extends extant knowledge on the CEO's relative influence on a firm's strategic actions.

4. Study framework, theory, and propositions

Building on extant theories, this analysis addresses the relative influence of CEO-level effects on various types of strategic actions, compared

Download English Version:

<https://daneshyari.com/en/article/10492691>

Download Persian Version:

<https://daneshyari.com/article/10492691>

[Daneshyari.com](https://daneshyari.com)