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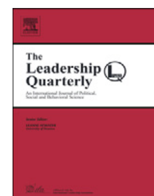

When do leaders matter? Ownership, governance and the influence of CEOs on firm performance

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A B S T R A C T

Leadership and strategic management research suggests that the extent to which CEOs influence performance largely depends on the presence or absence of certain factors. These factors may include the characteristics of the task at hand, subordinates, the organization itself or the external environment. Among these factors, a fundamental contingency that has received little empirical attention is an organization's *ownership and governance structure*—that is, who owns and monitors the organization. In this paper, we outline how different ownership and governance structures can present the opportunity for, or limit, leader influence and empirically examine the extent to which CEO effects on financial performance depend on these structures. Examining organizations in the same industry but with different ownership and governance structures, our results suggest that these structures are closely aligned with the degree to which CEOs influence firm performance. Our findings support the notion that leaders matter most when ownership and governance structures correspond with a weak or ambiguous institutional logic. This study contributes new insight into the "opportunity structure" of CEO influence, that is, the organizational factors that shape leader discretion and, hence, condition the CEO's level of influence over firm performance.

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1. Introduction

Under what conditions are leaders most able to affect their organizations? This question has a long history in organizational research, some of the most vibrant streams about which have come out of the literatures on contingency theories of leadership (Fiedler, 1967; House, 1971; Kerr & Jermier, 1978) and the upper echelons perspective on strategic management (Finkelstein & Hambrick, 1990; Hambrick & Mason, 1984; Peteraf & Reed, 2007). While the focus of contingency theories has been on micro-level factors that affect leadership effectiveness (Klein, Ziegert, Knight, & Xiao, 2006; Nübold, Muck, & Maier, 2012), the literature on strategic management has centered on macro-environmental concerns (Crossland & Hambrick, 2007; Hambrick & Abrahamson, 1995). Relatively scant attention has been given, however, to *organizational* features as a contingent condition for leaders. We seek to address this omission, showing in this study that ownership and governance structures–in particular, the clarity of the associated institutional logic as determined by the degree to which these functions are aligned in a single stakeholder group–can serve as key influences on leader discretion and, hence, leader effects on firm performance.

Many prior studies have illuminated important factors shaping leader effectiveness. Leadership scholars have primarily focused on the role of task characteristics, intrapersonal factors of both leaders and followers, and interpersonal dynamics

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between the two in determining the impact of leaders. For example, path–goal theory, proposed by Robert House (1971, 1996), posits that leader effects are contingent on the alignment of leadership style with various aspects of the task at hand, such as its level of ambiguity, and employee characteristics, including capabilities and locus of control. Hundreds of empirical studies have been conducted examining contingency theories of leadership, and interest in the moderators and possible substitutes for leadership remains high (Dionne, Yammarino, Howell, & Villa, 2005), with most of this work continuing to center on followers (Dvir & Shamir, 2003; Kellerman, 2008; Nübold et al., 2012; Shamir & Howell, 2000) and the characteristics of the task or situation (Herrmann & Felfe, 2013; Purvanova & Bono, 2009).

In a similar way, strategic management scholars have pursued a conditional approach to understanding the impact of leaders on their organizations, specifically in terms of the influence of CEOs on firm performance—termed the "leader effect" or "CEO effect." However, the focus here has been on macro-environmental concerns, such as regulatory obstacles (Peteraf & Reed, 2007) and industry conditions (Hambrick & Abrahamson, 1995) and how such factors shape the potential effects of leaders. For example, the upper-echelons perspective (Hambrick & Mason, 1984) assumes that organizations are a reflection of their top managers and specifically top managers' behavioral tendencies as shaped by personal background and other individual characteristics (Finkelstein & Hambrick, 1990). Refinements to the theory have specified that top managers can influence a firm's strategy and performance only if they have a sufficient degree of discretion for action (Hambrick & Finkelstein, 1987). Organizational theorists have likewise proposed macro-level conditions that pose a threat to the very notion of leader effects, such as industry norms regarding "legitimate" behavior (DiMaggio & Powell, 1983) that induce mimicry among organizations, and evolutionary life-cycles of firm populations that unleash forces beyond the control of any individual leader (Hannan & Freeman, 1977). Situations conducive to leader effects have not been entirely neglected, however. For instance, Salancik and Pfeffer (1977) have shown that, in the public sector, administrators can have a greater effect on outcomes to the extent that they are free from the constraints of powerful parties. In sum, macro-approaches to leader effects consider the "strength" of situations (Mischel, 1977). Weak situations, that is, situations facing weak constraints, offer high levels of managerial discretion and allow leaders to influence organizational outcomes (Barrick & Mount, 1993; House, Spangler, & Woycke, 1991; Jones & Olken, 2005; Tsui, Zhang, Wang, Xin, & Wu, 2006; Waldman, Ramirez, House, & Puranam, 2001).

Despite these contributions to understanding leader effects, comparatively little attention, in either research tradition, has been paid to contingency factors at the organizational level. To be sure, scholars have recognized the important influence of factors such as organizational identity on organizational action (Dutton & Dukerich, 1991; Dutton & Penner, 1993; Eccles & Nohria, 1992). Yet these factors have largely been left unexamined empirically, particularly when it comes to the influence of CEOs on the performance of their organizations Hambrick and Finkelstein (1987). Note that this mid-level of analysis–including organizational structure and process–is likely an important source of moderators of CEO effects. Similarly, Shamir and Howell (1999) theorize that organizational context–including technology, goals, structure, culture and governance–may shape the effectiveness of charismatic CEOs depending on the strength of the situation they face. Our paper addresses this gap by focusing on the role of ownership and governance in the degree to which CEOs matter for firm performance.

We consider ownership and governance for two reasons. First, as agents of the firm, CEOs may be the most directly freed or limited by these organizational structures. According to a recent review of the influence CEOs exert on strategic change, the most typical source of CEO constraint may be the direct "mandate" provided by boards of directors or owners to either stay the course or change strategic direction (Hutzschenreuter, Kleindienst, & Greger, 2012). Second, ownership and governance structures may be closely associated with specific institutional logics (e.g., for-profit ownership is associated with a market-oriented logic) that can powerfully yet often indirectly open or limit CEOs' opportunities to exercise discretion (Thornton, 2002; Thornton & Ocasio, 2008). As Thornton and Ocasio (1999) have noted, "institutional logics define the rules of the game by which executive power is gained, maintained, and lost in organizations" (p. 802). Prior studies have linked CEOs to ownership and governance in the context of certain outcomes, such as executive compensation (Hambrick & Finkelstein, 1987). Goodstein and Boeker (1991) also linked governance to CEOs and strategic change, finding that ownership and governance–specifically, which groups are in control–can strongly impact a CEO's freedom to determine strategic direction.

While the latter study emphasizes the influence of ownership and governance on a CEO's freedom to determine a course of action, ownership and governance have not yet been examined empirically with respect to a CEO's effect on *firm performance*. Thus our study is motivated by the following research question: under what types of ownership and governance arrangements will a CEO have the greatest effect on the financial performance of his or her firm? We build on prior research to show empirically that CEO effects on organizational performance are contingent upon ownership and governance arrangements, and we advance theory by showing that such contingent effects depend largely on the clarity or ambiguity of the associated institutional logic. In doing so, we offer both empirical and theoretical insights into the question of leader effects on firm performance. While the mechanisms underlying CEO effects are beyond the scope of this study, we seek to explain the "opportunity structure" for such effects (McAdam, 1996), that is, the conditions external to the CEO that determine his or her "window of opportunity" for influencing firm performance.

2. Theory and hypotheses

Before developing our hypotheses, we should define more precisely "leader effect" or "CEO effect." In the stream of research on strategic leadership, the "leader effect" is "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" (Crossland & Hambrick, 2007: 769–770). We prefer the term "CEO effect" to recognize that leadership may be exercised without regard to role. We also refer to CEO rather

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