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The Pacification of Institutional Investors

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A large-scale survey of U.S. top executives and fund managers is used to examine how executives may use interpersonal influence behavior to prevent powerful institutional investors from using their coercive power to force changes in corporate governance and strategy. We theorize that high levels of institutional ownership may prompt CEOs to engage in interpersonal influence behavior in the form of ingratiation and persuasion directed at institutional fund managers, which deters them from using their ownership power to coerce changes that could benefit shareholders at the expense of top management. The results support our theory, indicating that CEOs' ingratiation and persuasion tactics toward institutional fund managers reduce the effect of institutional ownership on specific changes in board structure and composition, CEO compensation, and corporate strategy that are believed to compromise management's interests. Our theory and findings suggest the importance of considering how interpersonal influence processes can provide an alternative source of influence in relationships between corporate leaders and external constituents. ●

A major transformation in the ownership structure of corporate America has occurred over the past twenty-five years. Whereas individual investors have historically owned a large majority of outstanding common shares in U.S. companies, institutions now hold nearly 60 percent of corporate equity in the United States. A large academic literature has begun to investigate the firm-level consequences of increased institutional ownership for corporate governance and strategy. Studies in multiple disciplines, including management, strategy, and financial economics, have examined the effects of institutional ownership on a range of corporate governance reforms, including changes in the structure and composition of boards of directors that increase the board's independence from management, more responsible executive compensation policies, and corporate strategies that better serve the interests of shareholders (for reviews, see Black, 1998; Kang and Sorenson, 1999; Daily, Dalton, and Cannella, 2003). In searching for effects of institutional ownership, researchers have suggested that large institutional owners have the potential to force companies to adopt governance reforms by leveraging their voting power and media influence. They could threaten to initiate proxy contests and file shareholder proposals that demand specific changes in corporate governance and strategy that favor shareholders, while engaging in media condemnation of companies with poor governance practices (or threaten to go public with their concerns), thus pressuring corporate leaders to adopt reforms to protect their reputations (Shleifer and Vishny, 1986; Kochhar and David, 1996; for a review, see Black, 1998; Kang and Sorenson, 1999: 124). By leveraging their ownership power to coerce managers and directors into adopting governance reforms, institutions have the potential to minimize the agency costs that arise when managers pursue policies that benefit themselves at the expense of shareholders (Wahal, 1996).

Several comprehensive reviews of this literature have generally concluded that the level of institutional ownership has mixed and often weak or insignificant effects on a range of

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organizational outcomes, including board structure and composition, executive compensation policy, corporate diversification strategy, and firm performance (e.g., Black, 1998; Kang and Sorenson, 1999; Edwards and Hubbard, 2000; Daily, Dalton, and Cannella, 2003; Parrino, Sias, and Starks, 2003; Sundaramurthy, Rhoades, and Rechner, 2005). Studies have found insignificant effects of the level of institutional ownership on board reforms that are thought to promote shareholders' interests, such as separation of the chief executive officer (CEO) and board chair positions (Westphal and Zajac, 1998; McGuire and Matta, 2003) and increases in the ratio of outside to inside directors (Westphal and Zajac, 1997). Other studies have found that institutional ownership does not significantly predict the level of CEOs' compensation (Daily et al., 1998; Weber and Dudney, 2003) or the amount contingent on performance (Westphal and Zajac, 1997; McGuire and Matta, 2003; Khan, Dharwadkar, and Brandes, 2005). Moreover, studies have shown insignificant effects of the level of institutional ownership on a range of other outcomes that indicate the quality of corporate governance, including anti-takeover provisions (Kosnik, 1987; Sundaramurthy, 1996), the level of board monitoring as perceived by top managers and directors (Westphal, 1999), change in product market diversification in response to poor performance (McDonald and Westphal, 2003), investment in technology (Jarrell and Lehn, 1985; Graves, 1988), and product innovation (Kochhar and David, 1996). In addition, a large number of studies, including two recent meta analyses, have shown weak or insignificant relationships between institutional ownership and firm profitability or stock market performance (Daily, 1996; Karpoff, Malatesta, and Walking, 1996; Wahal, 1996; Daily, Dalton, and Cannella, 2003; McDonald and Westphal, 2003; Bhagat, Black, and Blair, 2004; Sundaramurthy, Rhoades, and Rechner, 2005). Edwards and Hubbard (2000: 9) concluded that "to date institutional investors have done little to change the structure of corporate governance in the U.S." The apparent failure of institutional ownership to improve corporate governance has been made salient to the broader public by the wave of corporate scandals in recent years.

Understanding why increased ownership by institutional investors evidently failed to yield widespread changes in the corporate governance and strategic management of U.S. companies requires a deeper examination of power and influence in relations between management and shareholders. Existing work has assumed that the source of investors' influence is coercive power. Coercive power is based on the perceived ability to punish an influence target for failing to comply with the focal actor's demands (Raven, Schwartzwald, and Koslowsky, 1998; Raven, 1999). Prior theorizing on the organizational consequences of institutional ownership has tended to assume that such coercive power would confer influence over organizational outcomes, without considering the potential for top managers to exploit personal bases of power derived from their unique social status as corporate leaders and knowledge asymmetries vis-à-vis shareholders by engaging in interpersonal influence tactics with representatives of institutional investors. A central premise of the literature on power and politics in organizations is that power

does not necessarily confer influence over another actor; Pfeffer (1981: 7) defined power as "a store of potential influence" (see also Porter, Allen, and Angle, 1981; Barry and Watson, 1996). Moreover, this literature has shown how people can use assertive social influence tactics such as ingratiation and persuasion to deter powerful actors from exercising their power to the detriment of the focal actor (for a review, see Barry and Watson, 1996). In the context of executive-board relations, Westphal (1998) showed that CEOs can deter independent directors from mandating changes in executive compensation or corporate strategy that would harm the CEO's interests by engaging in interpersonal influence behavior that involves ingratiation and persuasion attempts toward powerful board members (see also Maitlis, 2004).

The present study builds on this prior work in suggesting how interpersonal influence behavior by CEOs toward representatives of institutional investors can help explain cumulative evidence that increased corporate ownership by institutions has had weak or insignificant effects on a range of organization outcomes. Our theoretical perspective considers how relatively high levels of institutional ownership could prompt top managers, CEOs in particular, to engage in ingratiation and persuasion tactics directed at institutional fund managers that deter the latter from using their ownership power to coerce changes in governance and strategy that could benefit shareholders but would harm managers' interests. More generally, this study builds on Westphal's (1998) prior research on interpersonal influence in executive-board relations to develop a broader behavioral perspective on relations between managers and firms' external constituents. While prior research has considered how managers use symbolic action, impression management in press releases, or other relatively overt, public actions and communications to influence key external stakeholders of the firm (e.g., Elsbach, 1994; Westphal and Zajac, 1998; Porac, Wade, and Pollock, 1999; Siegel and Brockner, 2005), our study extends theoretical perspectives on interpersonal influence in executive-board relations to consider how corporate leaders use interpersonal behaviors, particularly persuasion and ingratiation, as a source of influence in their relationships with external constituents.

INTERPERSONAL INFLUENCE BEHAVIOR IN RELATIONS BETWEEN CEOS AND INSTITUTIONAL FUND MANAGERS

Persuasion and Ingratiation

Persuasion involves "the use of reason or logic . . . to convince others that certain actions, [positions or policies] are in their own best interests" (Brass and Burkhardt, 1993: 447; Kipnis and Schmidt, 1988; Yukl and Tracey, 1992; Westphal, 1998). In the present context, persuasion attempts involve efforts by the CEO to convince representative(s) of an institutional investor that the focal company has in place corporate governance practices and strategies that promote shareholders' interests. The objective of such persuasion attempts is to maintain or restore investors' confidence in the firm's current governance practices and thus reduce the likelihood that investors will demand changes in governance structure, poli-

cies, or strategic decisions that are implicated by board practices and that threaten managerial interests. The CEO may claim that directors monitor and control management on behalf of shareholders by frequently challenging top management on strategic issues and independently evaluating management performance (i.e., without the CEO's involvement). The CEO may support these claims with specific examples or anecdotes. In more extensive persuasion attempts, the CEO may reiterate these points in separate communications on a regular basis (e.g., a phone conversation after each board meeting), each time providing one or more examples of director involvement.

As Porter, Allen, and Angle (1981) and others have suggested (Raven, 1999), persuasion attempts tend to be more successful to the extent that the actor possesses "expert power," or pertinent knowledge and information not possessed by the influence target. Similarly, Murphy and Shleifer (2004: 435) reviewed evidence from research in social psychology and communication indicating that persuasion is most effective when it addresses topics with which the influence target "does not have significant personal involvement." CEOs should tend to possess considerable expert power in their communications with fund managers, who rarely have personal involvement in board decision making (at the focal firm or elsewhere) and who therefore face appreciable knowledge and information asymmetries vis-à-vis CEOs. CEOs are not only privy to governance practices at the focal firm but also have expertise about governance practices from serving on boards of other large companies. Research on persuasion in cognitive psychology suggests that the perceived expertise of a communication source is a critical factor in determining the amount of effortful cognitive processing or "elaboration" that is devoted to a persuasive message (Petty and Wegener, 1999: 42). In effect, people engage in less careful critical scrutiny of messages that come from an expert source (Eagly and Chaiken, 1993; Ziegler et al., 2004). Similarly, people tend to overweight the source's expertise and underweight political motives in assessing the validity of information, judgments, or opinions (Birnbaum and Stegner, 1979; Petty and Wegener, 1999; Bonner, Baumann, and Dalal, 2002). CEOs may exploit this shortfall in cognitive processing by making their experience on boards salient to fund managers.

Persuasion attempts may also involve soliciting the assistance of colleagues in efforts to convince key decision makers that the focal actor's preferred policy or proposal is in their best interest (Porter, Allen, and Angle, 1981; Williams and Miller, 2002). In the present context, CEOs may recruit independent directors to help persuade fund managers that the focal firm's governance practices and corporate strategy further shareholders' interests. Independent directors, like CEOs, can leverage their firsthand knowledge of board processes at the focal firm to testify credibly that board members actively and independently monitor and control strategic decision making and evaluate management performance. The ANOVA model of attitude change suggests that

consensus information (e.g., consistent opinions about corporate governance from CEOs and directors), like the perceived expertise of the source, reduces the amount of effortful cognitive processing or critical scrutiny that is devoted to a persuasive message (Heesacker, Petty, and Cacioppo, 1983; for a review, see Ziegler et al., 2004). People tend to overestimate the independence of information or opinions garnered from different sources, which results in a tendency to overweight consensus information in making judgments (Demarzo, Vayanos, and Zwiebel, 2003). To the extent that the opinions of directors and CEOs are less than independent (e.g., because CEOs and directors socially construct their opinions or because CEOs encourage directors to make positive comments about the firm's governance in talking to fund managers), fund managers should tend to underadjust for such non-independence in rendering judgments about the firm's governance practices. CEOs can exploit this shortfall in cognitive processing by recruiting an independent director to provide testimony that backs up specific points made by the CEO, including stories or anecdotes about directors' involvement.

Ingratiation comprises specific social influence tactics that serve to "enhance one's interpersonal attractiveness" and "gain favor" with another person (Kumar and Beyerlein, 1991: 619; Vonk, 2002; Kacmar, Carlson, and Bratton, 2004). An extensive theoretical and empirical literature on ingratiation in social psychology and organizational behavior has identified three distinct kinds of ingratulatory behavior: other-enhancement or flattery, opinion conformity, and favor rendering (Jones, 1964; Tedeschi and Melburg, 1984; Gordon, 1996; Ellis et al., 2002). These behaviors are thought to engender social influence by enhancing positive affect for the ingratiator and creating a feeling of indebtedness toward him or her. Other-enhancement induces positive affect through reciprocal attraction. A basic feature of interpersonal relations is that "people find it hard not to like those who think highly of them," as unreciprocated liking creates cognitive dissonance or "subjective discomfort and strain" (Heider, 1958; Jones, 1964: 24). A meta-analysis of sixty-nine studies showed that other-enhancement typically has a strong effect on interpersonal attraction (Gordon, 1996). Flattery is also thought to create influence through the norm of reciprocity (Gouldner, 1960): when someone is paid a compliment, he or she feels psychologically indebted to the flatterer and will look for opportunities to return the favor (Westphal and Stern, 2006).

Opinion conformity as a type of ingratulatory behavior refers to verbal statements that validate the opinion held by another. Social influence theory suggests that opinion conformity elicits positive affect by triggering similarity-attraction bias. Given a large body of evidence that perceived similarity in attitudes and beliefs tends to promote interpersonal attraction (Williams and O'Reilly, 1998), opinion conformity should enhance positive affect for the ingratiator (e.g., Jones, 1964; Liden and Mitchell, 1988; Ellis et al., 2002). Raven (1999) suggested that opinion conformity enhances psychological identification that in turn engenders attraction. As Westphal

(1998) noted, it is also a subtle form of flattery: by expressing agreement with another's opinion, one affirms his or her judgment or intellect. Thus opinion conformity can elicit a feeling of psychological indebtedness toward the ingratiation, as well as engendering positive affect and liking (Westphal, 1998). Ingratiation behavior may also entail rendering more tangible favors, which again elicits positive regard for the ingratiation and creates a feeling of indebtedness by invoking norms of reciprocity. A large, interdisciplinary literature on social exchange has shown that norms of reciprocity are a powerful influence on human behavior. Such norms obligate individuals to accept favors when offered, as well as to repay them, so that social exchange can be initiated by unsolicited favors (Mauss, 1954; Benu, 1980; Cialdini, 2001). Although positive affect toward a favor-doer can increase reciprocity, there is considerable evidence that most people will reciprocate favors even in the absence of positive affect for the favor-doer and without expecting to receive further benefits in the future, as in one-shot exchanges between strangers (Hoffman, McCabe, and Smith, 1998; Webster et al., 1999; Perugini et al., 2003). In fact, there is evidence that people will often reciprocate favors received from those whom they dislike (Regan, 1971; Cialdini, 2001) and in spite of significant economic costs to themselves (Fehr and Gächter, 2000; Friedman and Singh, 2004).

Empirical research in organizational behavior has provided evidence not only that ingratiation behavior increases the likelihood of receiving an array of favorable outcomes, including salary increases, but also that such behavior reduces the likelihood that others will take actions that harm the ingratiation's interests or preferences (Kipnis and Schmidt, 1988; Gordon, 1996; Higgins, Judge, and Ferris, 2003; Westphal and Stern, 2006). Westphal (1998) found that CEO ingratiation toward structurally independent board members reduced the propensity for those directors to impose changes in executive compensation policy and corporate strategy that were contrary to managers' preferences. In the present context, CEOs may engage in flattery by complimenting a fund manager on his or her investment performance or by noting the manager's excellent professional reputation. In addition to using other-enhancement, CEOs may engage in opinion conformity by expressing agreement with the fund manager's opinions about corporate governance or by expressing agreement with his or her investment philosophy. CEOs may also reinforce the effects of flattery and opinion conformity by rendering professional and personal favors for a fund manager, such as relaying information obtained from a fellow top manager about a firm in the fund manager's portfolio or a potential investment opportunity, recommending or referring the fund manager for a job position or appointment, or helping the manager gain entry to an exclusive organization such as a private social club. Such ingratiation behaviors should tend to create positive affect and feelings of psychological indebtedness toward the CEO, which should tend to deter fund managers from engaging in coercive tactics such as proxy contests, shareholder resolutions, and media condemnation that would damage the CEO's reputation. Moreover, CEOs' ingratiation should reduce the propensity for fund managers to

force changes in corporate governance that violate CEOs' preferences, such as board reforms that reduce the CEO's discretion and authority over decision making or constraints on CEO compensation. Given norms of reciprocity, fund managers who have received favors, flattery, and other forms of ingratiation from a CEO should experience cognitive dissonance about taking actions that would harm the CEO's interests (Greenberg, 1980; Cialdini, 2001).

Ingratiation may be particularly effective because, while persuasion exploits knowledge asymmetries in the CEO-investor relationship, ingratiation exploits the CEO's social status as a corporate leader. There is theory and evidence to suggest that ingratiation from high-status actors is especially potent in creating positive affect and a feeling of indebtedness toward the ingratiator (Jones, 1964; Bowles, 1987; Vonk, 1998; Ellis et al., 2002). CEOs can exploit their unique social position to dole out favors to fund managers that lower-status actors cannot provide because of their access to elite organizations, fellow corporate leaders, or other elite social contacts. From a psychological standpoint, moreover, ingratiation from a high-status actor such as a CEO is likely to be especially esteem-enhancing; fund managers are likely to find it flattering simply to receive the CEO's attention. The social psychological literature on ingratiation suggests that even small favors from high-status actors can be effective in eliciting reciprocity (Jones, 1964; Bowles, 1987). Thus CEOs' ingratiation toward fund managers is likely to be especially effective in creating a feeling of psychological indebtedness toward the CEO, which should tend to deter fund managers from engaging in actions such as proxy contests, shareholder resolutions, and media condemnation that would harm the CEO's interests.

The Level of Institutional Ownership and CEOs' Influence Behavior

To the extent that CEOs' persuasion and ingratiation tactics deter representatives of institutional investors from using their ownership power to force changes in corporate governance and strategy that infringe on CEOs' interests, they may be especially likely to use these tactics when the level of institutional ownership, and the associated coercive power of institutions, is relatively high. There is abundant evidence from the social influence literature that the subjective expected utility of an influence tactic predicts the likelihood that an individual will use that tactic to gain social influence (Porter, Allen, and Angle, 1981; Jones and Pittman, 1982; Barry and Watson, 1996). The subjective expected utility of an influence tactic in turn depends on two factors: (a) the perceived likelihood that the tactic would be successful in gaining social influence over the target and (b) the perceived value or worth of that influence to the focal actor (Tedeschi, Schlenker, and Lindskold, 1972; Mowday, 1978; Barry and Watson, 1996). For CEOs, the value of the influence they might gain through persuasion and ingratiation directed at fund managers depends on the ownership power of institutional investors. Extant theory and research suggests that only so-called "pressure-resistant" institutional investors, which include public pension funds, mutual funds, endowments, and foun-

dations, are likely to have sufficient power to change corporate governance practices. Other so-called "pressure-sensitive" investors, such as banks and insurance companies, are thought to be reluctant to force change due to ongoing or anticipated business relationships with the firms in which they invest (Brickley, Lease, and Smith, 1988; Davis and Thompson, 1994; Ryan and Schneider, 2002: 560). Because CEOs have less need to engage in ingratiation and persuasion toward pressure-sensitive institutions, their interpersonal influence behavior is likely to be limited to pressure-resistant investors with a relatively large ownership stake, which are our focus in this study.

There is evidence that large, pressure-resistant institutional owners can coerce companies to implement governance reforms by threatening to introduce shareholder resolutions that call for specific changes, followed by a proxy contest if the resolutions are not adopted by management, while also engaging in a media campaign to publicize the need for reform (e.g., Wahal, 1996; Dasgupta and Nanda, 1997; Carleton, Nelson, and Weisbach, 1998; Gillan and Starks, 2000). The combination of governance-related shareholder resolutions, proxy contests, and a negative media campaign can significantly damage the reputation of corporate leaders regardless of whether the dissident shareholders ultimately seize control of the company (David, Hitt, and Gimeno, 2001: 146). Though most proxy contests do not ultimately result in new management, in recent years a significant minority of proxy contests have succeeded, and the size of institutional ownership is a strong predictor of the likelihood of success (Schrager, 1986; Mensah, 1998). When institutional investors have a large ownership stake in the firm, it is easier for them to marshal the votes necessary to win a proxy contest (Bizjak and Marquette, 1998; Gillan and Starks, 2000). Rather than suffering damage to their reputation and risking the possibility of losing control of their firms, corporate leaders will often yield to demands from large, pressure-resistant institutional investors to implement reforms in corporate governance and strategy when the latter threaten to initiate shareholder resolutions, proxy contests, and a negative media campaign if leaders fail to comply (Carleton, Nelson, and Weisbach, 1998). The value of CEOs' interpersonal influence behavior toward fund managers who might take actions that would harm the CEO's interests should therefore be especially great when pressure-resistant institutions have a large ownership stake in the firm. Accordingly, as the level of ownership by such institutions increases, CEOs should engage in higher levels of ingratiation behavior and persuasion attempts toward institutional fund managers. This discussion leads to the following, hypothesis:

Hypothesis 1: A high level of ownership by institutional investors will increase top managers' ingratiation behavior and persuasion attempts toward representatives of institutional investors.

CEOs' influence behavior and board reform. It might be suggested that institutional investors would rarely need to coerce changes in corporate governance because, based on the prudent investor perspective (cf. Badrinath, Gay, and Kale, 1989), they should avoid investing in firms that have

poor corporate governance practices in the first place. But fund managers are ultimately in the business of making a return for their investors, and a firm may be perceived as having an attractive industry position, promising opportunities due to its industry environment, valuable strategic resources or capabilities, or a host of other positive attributes that make it an attractive investment despite suboptimal governance practices. Fund managers may conclude that if the firm's governance practices turn out to be sufficiently poor that shareholders no longer benefit from the firm's strategic or organizational advantages, then they can pressure corporate leaders to improve those practices in order to better realize the firm's potential. Moreover, the prudent investor perspective suggests that in making investment decisions, institutional investors generally focus on financial characteristics of the firm, such as dividend yield, years on a stock exchange, leverage, size, and performance, rather than corporate governance characteristics (Badrinath, Gay, and Kale, 1989; Del Guercio, 1996). In any event, prior research also suggests that banks, which are categorized as pressure-sensitive investors, are most likely to exhibit this prudent investor strategy (Del Guercio, 1996) while pressure-resistant investors such as public pension funds may invest in riskier companies (Hoskisson et al., 2002; Hayashi, 2003); it is such pressure-resistant investors who are most likely to pressure firms for governance reforms.

Perhaps the most widely advocated governance reforms involve changes in board structure and composition that increase the board's independence from top management. We examine the effects of CEOs' interpersonal influence behavior on three such changes: increases in the portion of the board composed of outside directors (outsider ratio), separation of the CEO and board chair positions, and the creation of independent board nominating committees. It is generally believed that increases in the outsider ratio will tend to enhance the board's willingness to exercise control over a CEO's decision making and behavior. Inside directors report to the CEO and are therefore viewed as reluctant to challenge the CEO's preferences on strategic issues or to support efforts to limit a CEO's compensation and perquisites. In some cases, inside directors may be less likely to challenge the CEO because they share the CEO's preferences on a particular issue, such as opposing reductions in corporate diversification or the repeal of takeover defenses that would increase their employment risk (Amihud and Lev, 1981, 1999). It is also widely believed that separating the CEO and board chair positions, such that the CEO does not occupy both roles, increases the willingness and ability of board members to challenge the CEO (Ocasio, 1994; for reviews, see Finkelstein and Hambrick, 1996; Ellstrand, Tihanyi, and Johnson, 2002). When CEOs are deprived of the board leadership position it becomes more difficult for them to dictate the agenda of board meetings and avoid challenges to their position on strategic or other issues (Cannella and Lubatkin, 1993; Westphal and Zajac, 1998; Joseph and Ocasio, 2005).

Another structural reform thought to promote board control over management is the creation of independent board nomi-

nating committees. It is widely perceived among academics and corporate stakeholders that CEOs' control over the director selection process is a critical barrier to increasing the board's independence from management (Ocasio, 1994; Useem, 1996; Black, 1998; Shivdasani and Yermack, 1999). There is considerable evidence that CEOs may use their control over the director nomination process to favor board candidates who are personal friends or who share similar demographic profiles and common beliefs about corporate strategy and the board's proper role in decision making (Fredrickson, Hambrick, and Baumrin, 1988; Finkelstein and Hambrick, 1996). Corporate governance observers have long argued that nominating committees should be made formally independent of management, either by creating a new nominating committee composed entirely of outside directors or by removing the CEO and other inside directors from the existing committee (Vance, 1983; Anderson and Reeb, 2004). Such committees would presumably tend to appoint new directors who are willing to exercise independent control over management's decision making.

Each of these board reforms is presumed to promote shareholders' interests by increasing the board's independence from management, but each change also has the potential to reduce the CEO's discretion over strategy and policy outcomes, reducing the likelihood that such outcomes will reflect the CEO's interests. Our theoretical argument suggests, however, that CEOs can deter large institutional investors from exercising their coercive power to effect change by engaging in interpersonal influence behaviors toward institutional fund managers. Acts of other-enhancement or flattery by CEOs toward fund managers, such as complimenting a fund manager on his or her investment performance or noting the manager's excellent professional reputation, can enhance positive affect toward the CEO through the principle of reciprocal attraction while also creating a sense of psychological indebtedness toward the CEO. Acts of opinion conformity, such as expressing agreement with the fund manager's opinions about corporate governance or echoing his or her investment philosophy, should further elicit positive affect for the CEO by triggering a similarity-attraction bias, while creating a feeling of psychological indebtedness toward the CEO by validating the fund manager's judgment or intellect. While flattery and opinion conformity trigger norms of reciprocity by providing fund managers with intangible benefits (i.e., validation of their stature, judgment, or intellect), CEOs may also elicit reciprocity by rendering more tangible, personal and professional favors for fund managers, such as those mentioned above.

The norm of reciprocity may also be reinforced by fund managers who have an instrumental motive to reciprocate (Homans, 1958; Greenberg, 1980; Pereira, Silva, and Silva, 2006): by reinforcing the CEO's ingratiation behavior, fund managers increase the likelihood of receiving further favors from the CEO in the future. Consistent with the social psychological literature on ingratiation, ingratiation behavior from high-status actors such as CEOs may be especially likely to elicit feelings of psychological indebtedness and positive

affect, and fund managers are likely to experience cognitive dissonance about taking actions that would violate the CEO's preferences regarding board structure and composition. Instrumental motives to reciprocate a CEO's ingratiation should further increase fund managers' aversion to violating the CEO's preferences. Thus CEOs' ingratiation should increase the reluctance of fund managers to seek board reforms by engaging in shareholder resolutions and proxy contests, accompanied by media condemnation of the firm's corporate governance, which would damage the CEO's reputation as a corporate leader.

CEOs' persuasion attempts should also tend to deter institutions from forcing changes in board composition and structure. As discussed above, CEOs' persuasion entails claims that directors frequently challenge top management on strategic issues and independently evaluate management's performance (i.e., without the CEO present), while supporting these claims with specific examples or anecdotes of directors' behavior. In making such claims, CEOs draw on their expert power vis-à-vis fund managers, which derives from their personal involvement in board decision making at the focal firm and their experience on other boards. People tend to engage in less critical scrutiny of messages that come from an expert source, overweighting expertise and underweighting political motives in assessing the validity of information and judgments and the representativeness of examples. CEOs may exploit this shortfall in cognitive processing by making their experience on boards salient to fund managers. They may also recruit an independent director to give testimony that backs up specific points made by the CEO, including stories or anecdotes about directors' involvement, creating consensus information that further reduces the amount of cognitive scrutiny that is devoted to a persuasive message. Thus such communications may be effective in persuading fund managers that directors monitor and control management on behalf of shareholders. Because the purpose of the board reforms discussed above is to promote such behavior, we expect that CEOs' persuasion attempts will tend to create the impression that these changes are redundant with existing board practices and are therefore not critical to the board's effectiveness.

As a result, CEOs' persuasion attempts should tend to deter large institutional investors from using their coercive power to force board reforms through threats of shareholder resolutions and proxy contests, accompanied by media condemnation. Conversely, in the absence of CEOs' interpersonal influence behaviors to deter them, large institutional owners should be more likely to exercise their power to coerce changes in board structure and composition. Accordingly, the relationship between institutional ownership and the adoption of board reforms is likely to be contingent on CEOs' interpersonal influence behavior: while large institutional owners may leverage their power to force the adoption of board reforms in the absence of CEOs' interpersonal influence behavior, this tendency should diminish as the level of ingratiation and persuasion toward fund managers increases:

Hypothesis 2a: Top managers' ingratiation behavior toward representatives of institutional investors will negatively interact with the level of ownership by institutional investors to predict the following changes in board structure and composition: (i) increases in the ratio of outside to inside directors; (ii) separation of the CEO and board chair positions; (iii) creation of an independent board nominating committee. The level of institutional ownership will be positively related to each of these changes at low levels of ingratiation behavior, and these relationships will become weaker as the level of ingratiation behavior increases.

Hypothesis 2b: Top managers' persuasion attempts toward representatives of institutional investors will negatively interact with the level of ownership by institutional investors to predict the following changes in board structure and composition: (i) increases in the ratio of outside to inside directors; (ii) separation of the CEO and board chair positions; (iii) creation of an independent board nominating committee. The level of institutional ownership will be positively related to each of these changes at low levels of persuasion attempts, and these relationships will become weaker as persuasion attempts increase.

CEOs' influence behavior and compensation. Another policy on which CEOs' interests are presumed to conflict with the preferences of shareholders is CEOs' compensation. CEOs seek to maximize the size of their pay packages while minimizing compensation risk (i.e., the extent to which their pay is made contingent on firm performance through the use of long-term incentives such as stock options or restricted stock); shareholders are presumed to benefit from containing the size of CEOs' pay packages while motivating them to improve the firm's shareholder performance through the use of long-term incentives that make pay contingent on returns to shareholders (Westphal and Zajac, 1998; Pollock, Fischer, and Wade, 2002; Sanders and Carpenter, 2003; Carpenter and Sanders, 2004). Accordingly, the level and form of CEOs' compensation is thought to depend on the coercive power of shareholders to force changes in compensation. Management theorists have proposed that powerful institutional investors will pressure boards to control executive compensation and maximize the use of long-term incentives that make pay contingent on performance (Useem, 1996; Pollock, Fischer, and Wade, 2002). Yet studies have reported mixed evidence regarding the relationship between institutional ownership and executive compensation (Daily et al., 1998; Weber and Dudney, 2003; McGuire and Matta, 2003; Khan, Dharwadkar, and Brandes, 2005). Our theory leads to the expectation that higher levels of institutional ownership may not consistently result in lower CEO pay and higher compensation risk because CEOs can deter institutions with large ownership stakes from forcing change in their compensation by engaging in interpersonal influence behavior toward fund managers. Our theory suggests that as a result of CEOs' ingratiation, fund managers are likely to experience cognitive dissonance about taking actions that would harm the CEO's interests, such as forcing boards to limit or reduce the level of a CEO's compensation or to increase the use of long-term incentives that enhance compensation risk.

CEOs' persuasion attempts may also deter institutions from forcing boards to limit or reduce CEOs' pay. As discussed

above, persuasion attempts include claims that directors independently evaluate management's performance, thus justifying high CEO compensation as reflecting the board's objective assessment of the CEO's performance and worth to the firm. CEOs may recruit an independent director to give testimony that supports their claim that directors independently evaluate their performance, which may reduce the amount of critical scrutiny that is devoted to the CEO's persuasion attempt. Moreover, directors may also invoke a "human resource logic" for high CEO compensation (see Zajac and Westphal, 1995: 285), in which generous pay packages are portrayed as a means of retaining talented leaders who are in demand on the executive labor market. Zajac and Westphal (1995) suggested that the human resource logic for CEO compensation is persuasive because it appeals to the meritocratic ideal, the taken-for-granted assumption that people are rewarded for their capabilities. By making this logic salient to fund managers, and testifying that directors independently evaluate a CEO's performance in setting compensation, directors may weaken the presumption among fund managers that high CEO pay reflects executive entrenchment and weak board control and therefore wastes corporate resources.

Such persuasion attempts may also weaken the presumption that low levels of incentive pay indicate that CEOs are insufficiently motivated to pursue shareholder returns. CEOs may claim that directors already independently monitor and control management decision making on behalf of shareholders, so that high levels of compensation risk are not necessary to motivate them. Persuasion attempts can involve recruiting an independent director to validate the CEO's claim that directors already independently evaluate the CEO's performance on behalf of shareholders, so higher levels of incentive pay are not needed. In effect, directors appeal to the agency notion that financial incentives and board control provide alternative solutions to the agency problem, such that vigilant board control over management can substitute for high levels of compensation risk (Beatty and Zajac, 1994). Directors may also invoke a human resource logic for limited use of long-term incentives for CEOs (Zajac and Westphal, 1995), in which low compensation risk is portrayed as a means of retaining talented CEOs who have competing job opportunities at other organizations. Such persuasion attempts exploit the tendency for people to overweight source expertise and underweight political motives in assessing the validity of information and opinions (Bonner, Baumann, and Dalal, 2002). Accordingly, these communications may be effective in weakening the presumption among fund managers that higher compensation risk for CEOs would necessarily serve shareholders' interests.

Taken together, our arguments suggest that the relationship between institutional ownership and executive compensation is likely to be contingent on CEOs' interpersonal influence behavior:

Hypothesis 3a: Top managers' ingratiation behavior toward representatives of institutional investors will interact with the level of institutional ownership to predict change in (i) the level of CEO com-

pensation and (ii) compensation risk for CEOs. The level of institutional ownership will be negatively related to higher levels of CEO compensation and positively related to higher CEO compensation risk at low levels of ingratiation behavior, and these relationships will become weaker as the level of ingratiation behavior increases.

Hypothesis 3b: Top managers' persuasion attempts toward representatives of institutional investors will interact with the level of institutional ownership to predict change in (i) the level of CEO compensation and (ii) compensation risk for CEOs. The level of institutional ownership will be negatively related to higher levels of CEO compensation and positively related to higher CEO compensation risk at low levels of persuasion attempts, and these relationships will become weaker as persuasion attempts increase.

CEOs' influence behavior and corporate diversification.

Managerialist and agency perspectives suggest that top executives have incentives to pursue product market diversification beyond the level at which shareholder wealth is maximized (Amihud and Lev, 1981, 1999; Hill and Snell, 1989; Pound, 1993; Denis and Sarin, 1999). Executives tend to be overinvested in the firm relative to diversified stockholders, and their reputation and career prospects are heavily contingent on the firm's performance. Corporate diversification alleviates these financial and career risks by stabilizing corporate earnings. Shareholders prefer to minimize firm-specific risk through portfolio diversification, and their reputation and career prospects are typically less dependent on a firm's performance. Managers may also diversify the firm in order to enhance their power and status (Marris, 1964; Jensen, 1986). From an agency perspective, then, executives tend to prefer higher levels of diversification than shareholders. Accordingly, the level of diversification is thought to depend on the coercive power of shareholders to force strategic change: management theorists have hypothesized that powerful institutional investors will pressure corporate leaders to limit or reduce the level of corporate diversification, but empirical evidence on the relationship between institutional ownership and diversification is mixed (Hill and Hansen, 1991; Bergh, 1995; Sherman, Beldona, and Joshi, 1998; McDonald and Westphal, 2003).

Our theoretical perspective suggests that higher levels of institutional ownership may not consistently result in lower levels of corporate diversification because CEOs can deter large institutional owners from forcing reductions in the level of diversification by engaging in interpersonal influence behavior toward fund managers. As a result of ingratiation behavior from CEOs, fund managers are likely to experience cognitive dissonance about taking actions that would harm the CEO's interests. They may also feel compelled to reciprocate ingratiation behavior by supporting the CEO's preferences about corporate strategy and be reluctant to force changes that would contradict those preferences. A CEO's ingratiation may increase the reluctance of fund managers to seek reductions in diversification by initiating shareholder resolutions and proxy contests, accompanied by media condemnation of the firm's corporate strategy, which would damage the CEO's reputation as a corporate leader. CEOs' persuasion attempts may also tend to deter institutions from forcing corporate leaders to limit or reduce diversification. They may

claim that the firm's diversification strategy benefits shareholders by leveraging the firm's distinctive capabilities in new product or service markets. CEOs may bolster those claims by asserting that directors exercise independent control over strategic decision making. Such persuasion attempts can be bolstered by testimony from an outside director validating the CEO's claim about the board's propensity to engage in strategic control. Accordingly, our theoretical perspective suggests that the relationship between institutional ownership and corporate diversification is likely to be contingent on CEOs' interpersonal influence behavior:

Hypothesis 4a: Top managers' ingratiation behavior toward representatives of institutional investors will interact with the level of institutional ownership to predict changes in the level of corporate diversification: the level of institutional ownership will be negatively related to higher levels of corporate diversification at low levels of ingratiation behavior, and this relationship will become weaker as the level of ingratiation behavior increases.

Hypothesis 4b: Top managers' persuasion attempts toward representatives of institutional investors will interact with the level of institutional ownership to predict changes in the level of corporate diversification: the level of institutional ownership will be negatively related to higher levels of corporate diversification at low levels of persuasion attempts, and this relationship will become weaker as persuasion attempts increase.

METHOD

Sample and Data Collection

The sample frame for this study included top managers at large and mid-sized public companies. We randomly selected 500 companies from the Forbes index of U.S. industrial and service firms, and an additional 500 companies between \$500,000 and \$100 million in sales were randomly selected from the Reference USA index, which also includes U.S. industrial and service firms. Because the Forbes index included multiple lists of the 500 largest firms, each based on a different indicator of firm size (e.g., sales, market capitalization, and so forth), the total number of companies in the Forbes index was greater than 500. We sent questionnaire surveys to the CEO and chief financial officer (CFO) of each company, and surveys were also sent to the investment relations officer (IRO) and corporate governance officer (CGO) at companies in which these positions existed. The surveys were distributed in 2002. To permit an assessment of interrater reliability, we sent a separate survey to representatives of institutional investors with whom the top manager reported having discussed corporate governance during the prior year. Although our arguments generalize to interactions that involve other top executives aside from the CEO and other representatives of institutional investors, qualitative evidence from pretest interviews and descriptive data from our survey indicated that persuasion and ingratiation in manager/investor relations almost always involves the CEO and an institutional fund manager.

We took a number of steps to maximize the survey response rate. We conducted a qualitative pretest of the survey instrument that involved in-depth interviews with twenty-two cur-

rent or former top managers and institutional fund managers. Each interview was approximately 20–40 minutes in length. The interviews provided feedback we used to revise the format and instructions of the survey, making it easier and less time consuming to complete. The cover letter characterized the survey as part of a series of studies on strategy and corporate governance involving faculty at a number of leading business schools and noted that thousands of managers and directors had participated in prior surveys. The survey was also endorsed by a well-known corporate executive and by directors at a major management consulting firm. We sent two additional waves of questionnaires to nonrespondents. The survey response rate for CEOs and CFOs was 39 percent and 40 percent, respectively, and the overall response rate was 39 percent. The response rate for representatives of institutional investors was 41 percent.

We used Heckman models to provide a multivariate test of sample selection bias (Heckman and Borjas, 1980). The Heckman model is preferable to univariate approaches to testing for sample selection bias such as two-sample t-tests; it is a two-stage procedure in which the first stage estimates the likelihood of responding to the survey, and parameter estimates from that model are included in a second-stage equation that tests the hypothesized relationships. The selection equation included all the independent and control variables measured with archival data, as well as variables that describe characteristics of the survey itself, such as when the questionnaire was distributed. The selection parameter was not significant, and the hypothesized results were unchanged from those presented below, indicating that non-response bias was not present in the data.

We obtained data on institutional ownership from *Thomson Financial Securities Data*. Data on CEO compensation and board structure and composition came from corporate proxy statements. Data on firm characteristics, including diversification, size, and performance, came from *COMPUSTAT*.

Measures

To enhance the validity of our survey measures, we asked pretest participants to comment on each question in the survey. We used this feedback to refine the wording of the questions and to identify items that were unclear or ambiguous. The survey scales include items that ask respondents to report the number of times a particular behavior occurred, which has been shown to enhance a scale's validity (DeVellis, 1991). One set of questions asked respondents to indicate the number of times they had engaged in various kinds of communication with representatives of institutional investors during the previous twelve months. Responses to these questions indicated that it is very rare for top managers other than the CEO to communicate with institutional investors about corporate governance or to engage in ingratiation behavior with representatives of institutional investors. Thus our measures of persuasion and ingratiation are based on CEOs' communications, and we controlled for other kinds of communication involving IROs, CFOs, or corporate governance officers, as discussed further below. Responses to

these questions also indicated that virtually all communications with representatives of institutional investors about corporate governance occurred between CEOs and fund managers.

Interpersonal influence behavior. We developed two multi-item scales to measure the extent to which top managers engaged in *ingratiatory behavior* and *persuasion attempts* in their relations with representatives of institutional investors. The scale items are shown in table 1. The ingratiation scale includes six items that capture the three types of ingratiatory behavior discussed above: other-enhancement, opinion conformity, and favor rendering. The scale items were adapted from measures developed by Westphal and colleagues (Westphal, 1998; Westphal and Stern, 2006) and Kumar and Beyerlein (1991). Respondents were instructed to answer these questions separately for each representative of an institutional investor ("alter") with whom they had communicated during the previous twelve months. We conducted factor analysis on the survey items using the principal factor method with promax rotation. The ingratiation and persuasion

Table 1

Survey Scale Items and Interrater Reliability Assessment (N = 803)*

Ingratiatory behavior scale items	Intraclass correlation coefficient (ICC)
1. [Over the past twelve months:] How often have you complimented [this individual] about [his/her] insight on a corporate governance issue?	.92
2. [Over the past twelve months:] How many times did you express agreement with [this individual] regarding [his/her] point of view on a corporate governance issue?	.89
3. In speaking with [this individual] over the past twelve months, on how many occasions have you pointed out opinions you have in common?	.90
4. How many times did you compliment [this individual] on [his/her] judgment in speaking with [him/her] over the past twelve months?	.91
5. In the past twelve months, how many times have you done a favor for [this individual] without [him/her] asking for it?	.94
6. On how many occasions over the past twelve months have you made an effort to help out [this individual] on a personal matter?	.94
Persuasion attempts scale items†	
1. [Over the past twelve months:] Approximately how much time did you spend attempting to persuade [this individual] that you have sound corporate governance practices at [focal company]?	.87
2. [Over the past twelve months:] About how much time have you spent with this person in an effort to reassure [him/her] about the quality of your company's corporate strategy?	.89
3. [Over the past twelve months:] On how many occasions have you tried to convince [this individual] that your board actively monitors decision making on strategy and policy issues?	.91
4. [Over the past twelve months:] How many times have you tried to reassure [this person] that your board independently evaluates the performance of top managers?	.90
5. [Over the past twelve months:] Have you brought up the subject of corporate governance at your company [with this individual] in order to persuade [him/her] that your governance practices are appropriate? If so, on how many occasions?	
6. [Over the past twelve months:] Have you asked one or more outside directors to speak with [this individual] about the quality of corporate governance at your company?	
7. [Over the past twelve months:] On how many occasions has an outside director—at your behest—attested to the board's effectiveness in corporate governance in speaking with [this individual]?	.86

* The phrasing of each scale item was taken from the CEO survey; the wording of the questions was altered appropriately for the survey sent to representatives of institutional investors. All coefficients are statistically significant at $\alpha = .01$.

† Interrater reliability statistics could be calculated for five of the seven persuasion items (two of the seven items were excluded from the scale used to assess interrater reliability).

items loaded on two different factors as expected, with loadings above .5 on one factor and less than .2 on the other. The interitem reliability of each scale was acceptably high, with alphas of .87 for the ingratiation scale and .88 for the persuasion scale. For firm-level analyses of change in board structure and composition, CEO compensation, and corporate diversification, we aggregated CEO ingratiation and persuasion to the firm level; for each survey question we summed the responses across alters and then generated factor scores. The intraclass correlation coefficient (ICC) was highly significant for both measures ($F = 3.48$ and 3.62 for ingratiation and persuasion, respectively), justifying aggregation to the firm level (Klein et al., 2001). Separate analyses indicated that variation in ingratiation and persuasion is greater between firms than within firms (i.e., across investors of the same firm) largely because the variation in levels of ownership by pressure-resistant investors is correspondingly greater across firms than within firms.

The questionnaire sent to representatives of institutional investors with whom top managers reported having discussed corporate governance during the prior year included a parallel set of items about the interpersonal influence behavior of top managers toward the respondent, e.g., "How many times did [the manager] compliment you on your judgment . . . ?" We assessed interrater reliability by comparing CEOs' and fund managers' responses to the items in both surveys using the intraclass correlation coefficient (ICC) (McGraw and Wong, 1996). The sample for this analysis included dyads of top managers and representatives of institutional investors ($N = 803$). As shown in table 1, ICCs exceeded .85 for all survey items, providing strong evidence for the interrater reliability of both survey scales.

Institutional ownership. Because we expected that only so-called "pressure-resistant" institutional investors, which include public pension funds, mutual funds, endowments, and foundations, are likely to have sufficient power to change corporate governance practices, we measured the *level of institutional ownership* as equity held by public pension funds, mutual funds, endowments, and foundations, divided by total common stock. In separate models, we controlled for the level of ownership by other institutions and found that the hypothesized results reported below were substantively unchanged (results described in more detail below). In further modeling, we operationalized this construct as equity held by the top five institutional owners (the institutions with the largest ownership stake in the firm), divided by total common stock (Hartzell and Starks, 2003), and again found the hypothesized results unchanged.

Board reforms, CEO compensation, and corporate diversification. We created a dichotomous variable to indicate separation of the CEO and board chair positions (*CEO/board chair separation*), coded one if the board-chair position was reallocated from the CEO to an independent director during the two-year period after the time of the survey. The *creation of an independent board nominating committee* was measured with a dichotomous variable, coded one if the board had a nominating committee composed exclusively of outsiders

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two years after the time of the survey and either did not have a nominating committee in the previous year or had a committee that included one or more insiders. The *outsider ratio* was measured as the number of directors who were not full-time employees divided by the total number of board members.

The *level of CEO compensation* was measured as annual total direct compensation, which includes CEO salary, short-term bonus, and the value of long-term incentive grants made in a particular year (Crystal, 1984). Given that the distribution of this variable was highly skewed, we used the natural log transformation of total direct compensation in the models. Stock option grants were valued using the Black-Scholes method (Black and Scholes, 1973), and other long-term grants, including performance shares and restricted stock, were valued at the market price on the date of grant (Crystal, 1984). The results were robust to alternative valuation methods (see Carpenter and Sanders, 2004). *CEO compensation risk* was measured as the proportion of total direct compensation consisting of long-term incentive pay, a measure commonly used in prior research (Gomez-Mejia, 1994; Carpenter and Sanders, 2004). We used the entropy measure of *corporate diversification*, which has been shown to have good construct validity relative to alternative measures (Hoskisson, Johnson, and Moesel, 1994). In the primary models reported below, we estimated change in the dependent measures from year $t-1$ to year $t+2$, consistent with previous research (Westphal, 1998; McDonald and Westphal, 2003). Separate analyses confirmed that our use of difference scores satisfied the constraints specified by Edwards (1994), and the hypothesized results were also robust to alternative lag structures (year $t+1$ or year $t+3$). We tested the hypothesized interactions using the product-term method.

Control variables. As noted above, the survey included questions about *communication between top managers other than the CEO and representatives of institutional investors* during the prior twelve-month period (e.g., "How often does the Chief Financial Officer communicate directly with representatives of institutional investors?"). Using responses to these questions, we developed separate measures of communication with institutional investors for IROs, CFOs, and CGOs. The inter-item reliability of these measures was acceptably high (alphas ranged from .84 to .91). To assess interrater reliability, we compared CEOs' responses to these questions with the responses of another manager at the same company for the subsample of companies with at least two responding managers. Intraclass correlation coefficients ranged from .84 to .94, suggesting that interrater reliability of these measures was also acceptably high. Thus we used these measures to control for communication between each top manager other than the CEO and representatives of institutional investors.

Although friendship ties to fund managers could provide an alternative source of social influence, recent evidence suggests that friendship ties may not confound the observed effects of ingratiation behavior (Westphal and Stern, 2006). Nevertheless, as a precaution, we controlled for the number

of friendship ties between the CEO and representatives of institutional investors in all models. There was a satisfactorily high level of agreement between CEOs and fund managers about the status of their relationship as friends vs. acquaintances (93 percent). Although recent evidence suggests that the level of social interaction between actors may not predict interpersonal influence independent of friendship ties or ingratiation behavior (Vonk, 2002; Westphal and Stern, 2006), as a precaution, we also controlled for the *level of social interaction between the CEO and representatives of institutional investors* over the prior six-month period ($\alpha = .83$, weighted kappa = .77).¹ Moreover, to the extent that CEOs' ingratiation and persuasion toward institutional fund managers reflect a broader tendency to engage in interpersonal influence behavior toward internal and external constituents of the firm, such behavior could be correlated with CEOs' ingratiation and persuasion toward board members. Thus we controlled for the *level of CEO ingratiation and persuasion toward outside directors* during the prior year, using survey measures developed and validated by Westphal (1998). CEOs' interpersonal influence behavior toward fund managers could also be associated with self-handicapping by CEOs in letters to shareholders, which has been shown to influence the size of CEOs' bonuses (see Siegel and Brockner, 2005). Using the procedure described by Siegel and Brockner (2005: 13), we developed a measure of external handicaps by content-analyzing the most recent letter to shareholders for a random sample of 125 firms in our sample. Two independent coders conducted the analysis, and we found a high rate of interrater agreement about the incidence of external handicaps (94 percent). Subsequent analyses indicated that, for this subsample of firms, (1) handicapping was not significantly correlated with CEOs' ingratiation or persuasion toward fund managers, (2) the interaction between handicapping and prior return on assets was also not correlated with our independent variables, and (3) when these variables were included as controls in models of CEO compensation, the hypothesized results were unchanged.

We controlled for firm size in models of CEO ingratiation and persuasion attempts, measured as the *log of sales*, given that large firms may provide easier targets for media condemnation of corporate governance practices. In separate models, we used the log of total assets, and the results were identical. Because relatively poor firm performance could also increase the likelihood of shareholder activism (Davis and Thompson, 1994), we controlled for two measures of firm performance: *return on assets* and *market-to-book value*. We adjusted both measures for industry differences by subtracting the primary industry median return on assets (market-to-book value) from the focal firm value. The results were robust to alternative performance measures, including Tobin's Q. In models of interpersonal influence behavior, these controls were measured for the year prior to the twelve-month period for which ingratiation and persuasion were measured. In models of board reform, CEO compensation and diversification, the controls were measured for the year prior to the survey date.

¹

Weighted kappa is a measure of interrater agreement that is suitable to likert-type scales. Values above .75 can be taken to indicate excellent agreement (Fleiss, 1981).

We also controlled for measures of board structure and composition, CEO compensation, and corporate diversification in the prior year, measured for the year prior to the survey date. On one level, these variables help control for sources of unobserved heterogeneity. To the extent that these variables are viewed as indicators of independent board control over management (or the lack of such control), they could influence the CEO's motivation to engage in ingratiation and persuasion toward institutional fund managers. We also included a survey measure of *board monitoring and control behavior*, given that objective indicators of board control are not perfectly correlated with actual board behavior. This measure, validated in prior research by Westphal and Stern (2006), assesses behavior over the prior twelve-month period. In addition, to help account for possible sources of unobserved heterogeneity in models of ingratiation and persuasion attempts, we controlled for survey measures of social influence behavior in the previous twelve months (i.e., time $t-2$ to time $t-1$) using responses to a separate survey scale ($\alpha = .86$ and $.88$ for measures of ingratiation and persuasion, respectively). We also controlled for industry differences by including dummy variables for the N-1 two-digit Standard Industrial Classification (SIC) codes in the sample.

Although demographic similarity between CEOs and fund managers could effectively substitute for social influence behavior (Westphal and Stern, 2006), we did not expect similarity to affect investors' behavior independent of friendship ties or the level of social interaction. Nevertheless, in separate models, we controlled for demographic similarity with respect to prior employment and education (i.e., employment at the same firm or attendance at the same school), and the hypothesized results were unchanged. Moreover, although some researchers have suggested that large institutions may be more active in seeking governance reform (Ryan and Schneider, 2002), evidence for a link between investor size and activism is mixed at best (Black, 1998). In separate analyses, we controlled for the average size of institutional owners and again found that the hypothesized results were substantively unchanged. Finally, in separate models, we controlled for CEO tenure, which could be correlated with institutional ownership, CEO compensation and board composition and again found that the results were unchanged. Descriptive statistics and bivariate correlations are provided in table 2.

Analysis

We used multiple regression analysis to estimate CEO ingratiation and persuasion attempts for the sample of CEO-fund-manager dyads. As noted above, we controlled for CEO interpersonal influence behavior in the prior period, which can create serial correlation. To correct for this, we specified prior ingratiation and persuasion as instrumental variables in the models. The sample for this analysis included multiple dyadic combinations that involved the same CEO or the same fund manager, because there can be multiple institutional investors for each firm in the sample, and some institutions have an ownership stake in more than one sample firm. Given that residuals for dyads that include the same actor

Table 2

Descriptive Statistics and Pearson Correlation Coefficients (N = 404 Companies)

Independent variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10
1. Level of institutional ownership	.36	.17										
2. CEO ingratiation behavior	.00	.98	.23									
3. CEO persuasion attempts	.00	.99	.25	.18								
4. Communication between CFO and representatives of inst. investors	.00	.98	.16	.03	.02							
5. Communication between CGO and representatives of inst. investors	.00	.87	.10	.03	.05	-.13						
6. Communication between IRO and representatives of inst. investors	.00	.90	.23	.06	.06	.04	.06					
7. Level of social interaction between CEO and representatives of inst. investors	.00	.97	.08	.01	.03	-.03	-.05	.01				
8. Friendship ties between CEO and representatives of inst. investors	2.23	1.54	.28	-.10	-.06	.02	.03	.01	.31			
9. CEO ingratiation behavior toward outside directors	.00	.98	.07	.09	.08	.04	.06	.02	.05	.06		
10. CEO persuasion attempts toward outside directors	.00	.97	.10	.07	.07	.02	-.02	-.01	.08	.04	.08	
11. Log of sales	4.95	.98	.16	.02	.04	.03	.09	.07	.04	.06	-.02	-.03
12. Return on assets	.01	.08	.06	-.07	-.09	-.01	-.06	-.05	-.02	.02	.04	.05
13. Market-to-book value	.01	.59	.08	-.04	-.05	.00	-.03	-.07	-.02	-.01	.03	.08
14. Corporate diversification	.56	.58	-.05	.18	.14	.04	-.02	.08	.05	.02	.19	.16
15. Separation of CEO and board chair positions	.20	.40	.08	-.11	-.13	-.11	-.08	-.05	-.03	-.06	.21	.26
16. Independent nominating committee	.44	.50	.05	-.05	-.02	-.07	.02	-.08	-.05	-.04	.15	.13
17. Board monitoring and control behavior	.00	.96	.04	-.09	-.05	.06	.06	.10	-.02	.01	-.12	-.09
18. Outsider ratio	.74	.18	.05	-.11	-.12	-.03	-.05	.00	.01	-.07	.23	.27
19. CEO compensation risk	.39	.16	.03	-.16	-.11	.01	-.02	-.02	-.01	-.09	-.08	-.13
20. Level of CEO compensation	8.87	.85	.06	.22	.12	.03	.06	.04	.04	.11	.14	.17
21. Change in CEO comp. risk	.07	.21	.08	-.12	-.14	-.05	-.09	-.05	-.10	-.21	-.21	-.19
22. Change in outsider ratio	.06	.11	.10	-.18	-.21	-.07	-.06	-.10	-.08	-.17	-.04	-.08
23. Change in corp. diversification	.03	.34	-.07	.16	.15	.05	-.04	.06	.03	.04	.25	.21
24. Change in level of CEO comp.	.42	.75	-.07	.13	.16	.03	.05	.07	.06	.15	.23	.24
Independent variable	12	13	14	15	16	17	18	19	20	21	22	23
13. Market-to-book value	.20											
14. Corporate diversification	.03	-.02										
15. Separation of CEO and board chair positions	-.07	-.02	-.12									
16. Independent nominating committee	-.04	-.03	-.06	.13								
17. Board monitoring and control behavior	.16	.13	-.08	.29	.14							
18. Outsider ratio	-.04	-.08	.04	.05	.06	.03						
19. CEO compensation risk	.02	.02	.09	.15	-.09	-.05	-.07					
20. Level of CEO compensation	.01	.04	.07	-.13	-.05	-.06	.03	.12				
21. Change in CEO comp. risk	-.03	-.09	-.02	.24	.21	.28	.07	.01	.02			
22. Change in outsider ratio	-.05	-.07	.12	.18	.14	.06	-.02	-.13	-.03	.04		
23. Change in corp. diversification	.02	-.04	.02	-.10	-.07	-.08	.06	.08	.03	.04	-.02	
24. Change in level of CEO comp.	.05	.08	.03	-.23	-.18	-.19	.06	.21	.05	-.08	.01	.06

could be correlated, we estimated robust standard errors that correct for observation clustering.

Analyses of change in board structure and composition, CEO compensation, and corporate diversification were conducted at the firm level. Given the well-known problems with estimating ratio variables (Firebaugh and Gibbs, 1985), we tested the hypothesized effects of CEO interpersonal influence behavior on change in the outsider ratio using simultaneous equations. We used separate equations to estimate the effects of the independent variables on (1) change in the number of outside directors and (2) change in the number of inside directors. Our hypotheses would be confirmed if, for example, the effects of ingratiation and persuasion on change in the number of outside directors were negative, while the effects on change in the number of inside directors were positive. We estimated these variables using ordered

logit regression analysis. In separate models, we estimated the number of outside/inside directors while controlling for the prior values of each variable using negative binomial models, and the hypothesized results were unchanged from those presented below. To correct for endogeneity between the number of outside directors and the number of inside directors, we estimated the equations simultaneously using three-stage regression analysis (Greene, 2003). We also used this modeling approach to test the hypothesized effects of CEO interpersonal influence behavior on change in CEO compensation risk (i.e., the ratio of long-term incentive compensation to total direct compensation). We specified log of sales as an instrument in the models of change in board structure and composition, CEO compensation, and diversification, as we expected firm size to predict the number of outside directors but not the number of inside directors, and we also expected size to predict CEO cash compensation but not long-term incentive compensation. Large firms interact with a greater number and variety of actors in the external environment and are more visible to actors in the environment. As a result, a resource dependence perspective would suggest that large firms need to add more outside directors to manage the firm's interaction with the environment (cf. Pfeffer, 1972). Inside directors other than the CEO are primarily responsible for internal management of the organization, rather than managing resource dependence, and therefore firm size would not necessarily predict the number of inside directors. We expected CEOs of relatively large firms to receive higher increases in cash compensation, as cash compensation is typically used to reward CEOs for the greater responsibility of managing large firms (Crystal, 1984). Long-term incentive (LTI) pay is less contingent on managerial responsibility, and thus firm size would not necessarily influence change in long-term incentive pay for CEOs. Results of our analyses confirmed these expectations. More generally, log of sales satisfied the criteria set forth by Angrist and Krueger (2001: 79) for instrumental variables in simultaneous equations.

We used Heckman sample selection models to estimate separation of the CEO and board chair positions and creation of an independent board nominating committee. As noted above, the Heckman model is a two-stage procedure that adjusts for selection bias in regression analysis (Heckman and Borjas, 1980). Firms were only at risk of CEO/board chair separation if the positions were combined at the time of the survey; similarly, firms were only at risk of creating an independent nominating committee if they lacked a nominating committee or the committee included one or more insiders. To the extent that firms at risk of these events differ in ways that affect the CEO's propensity to engage in interpersonal influence behavior, sample selection bias could threaten the generalizability of our results to the larger population of large and mid-sized U.S. companies. Thus we ran Heckman selection models in which the selection equation estimates the likelihood of CEO/board chair combination or the absence of an independent nominating committee at the time of the survey for the full sample of firms, using probit regression. Parameter estimates from that model were then included in sec-

ond-stage probit models that predict the likelihood of CEO/board chair separation or creation of an independent nominating committee. We used multiple regression analysis to estimate change in corporate diversification and the level of CEO compensation. Again, in separate models, we estimated the level of diversification and compensation while controlling for the prior value, and the hypothesized results were unchanged.

The selection equations included independent variables that might be expected to predict whether firms had combined CEO/board chair positions and independent nominating committees at the time of the survey, without affecting the likelihood of subsequent change in these structures. Recent research on corporate governance suggests that prevailing normative beliefs or ideologies on structural board independence have changed over time. While in recent years an agency ideology has prevailed, in which sources of board independence such as CEO/board chair separation and independent nominating committees are thought to enhance the effectiveness of corporate governance by increasing the board's capacity to control management, in earlier years, structural board independence was thought to have disadvantages that could outweigh the advantages of objective board control (Zajac and Westphal, 1995) because board independence could reduce the unity of command in corporate leadership, which might inhibit the ability of CEOs to effectively implement organizational change (see Harrison, Torres, and Kukalis, 1988; Finkelstein and D'Aveni, 1994). From an institutional perspective, board structure should reflect prevailing ideologies at the time of organizational founding (Stinchcombe, 1965; Boeker, 1989), so firms founded prior to the spread of agency perspectives on corporate governance should be more likely to have combined CEO and board chair positions (and less likely to have independent nominating committees) than firms founded during the agency era. Several studies suggest that the agency ideology became prevalent in the 1980s (Davis and Thompson, 1994; Useem, 1996; Westphal and Zajac, 1998), so we expect that firms founded prior to 1980 should be more likely to have these structures than firms founded subsequently. Accordingly, we created a dummy variable coded one for firms that were founded prior to 1980, and zero otherwise (*founding prior to agency era*). The disadvantages of board independence were thought to be especially pronounced for diversified firms and firms in turbulent environments. It was thought that unified leadership would be valuable in exercising control over diversified firms and, conversely, that independent boards could create conflict within corporate leadership that could inhibit organizational coordination and control of the firm's disparate units (Finkelstein and D'Aveni, 1994). Similarly, it was thought that firms operating in turbulent environments needed unified leadership to adapt quickly to environmental change. Such factors should be less predictive of structural board independence in recent years, as the prevailing agency logic gives little consideration to the organizational control benefits of a unified leadership structure. Thus we also created the following interaction terms: time of founding interacted with diversification at time of founding (or the earliest date for which

data were available), measured as the number of two-digit SIC codes in which the firm participated; time of founding interacted with variance in the four-firm concentration ratio of the firm's primary industry, as a measure of environmental turbulence (over three years surrounding the year of founding, or the earliest three-year period for which data were available) (Wiersema and Bantel, 1992); and time of founding interacted with variance in average stock returns in the firm's primary industry, as a second measure of environmental turbulence (measured for the same time period) (Dess and Beard, 1984). In separate models, we included indicators of firm size and profitability in the selection equations, and the hypothesized results presented below were unchanged.

RESULTS

Table 3 contains results from multiple regression analyses of CEO interpersonal influence behavior. The results provide strong support for hypothesis 1. In particular, the level of institutional ownership was positively and significantly related to both CEO persuasion attempts and ingratiation behavior toward representatives of institutional investors. CEOs engage in a significantly higher level of interpersonal influence behavior toward institutional fund managers when the level of ownership by pressure-resistant institutional investors is relatively high.

Table 4 contains results from probit regression analysis in a Heckman sample selection model with CEO/board chair separation and the creation of an independent nominating committee as the dependent variables of interest. The results of these models provide partial support for hypothesis 2a. The interaction between the level of institutional ownership and CEO ingratiation behavior is negative and statistically significant for CEO/board chair separation, as hypothesized. We also analyzed simple effects for each interaction, and the results are presented in table 5. This analysis indicates that although the level of institutional ownership is negatively associated with the likelihood of CEO/board chair separation at relatively low levels of ingratiation behavior (i.e., levels of ingratiation below the mean), institutional ownership is not significantly associated with the likelihood of CEO/board chair separation at relatively high levels of ingratiation behavior (i.e., levels above the mean). Thus the relationship between institutional ownership and CEO/board chair separation is contingent on the level of CEO ingratiation toward institutional fund managers. As shown in table 4, the interaction effect is not significant for the creation of independent nominating committees.

The results in table 4 provide strong support for hypothesis 2b. In particular, there is a significant interaction between the level of institutional ownership and CEO persuasion attempts on both CEO/board separation and the creation of independent nominating committees. As shown in table 5, the analysis of simple effects reveals that though the level of institutional ownership is negatively associated with the likelihood of CEO/board chair separation and the creation of independent nominating committees at relatively low levels of CEO

Table 3

Multiple Regression Models of CEO Interpersonal Influence Behavior (N = 1729)*

Independent variable	CEO ingratiation behavior	CEO persuasion attempts
Level of institutional ownership	0.316 ^{***} (0.089)	0.599 ^{***} (0.127)
Communication between CFO and representatives of inst. investors	0.005 (0.019)	0.001 (0.026)
Communication between CFO and representatives of inst. investors	0.005 (0.019)	0.001 (0.026)
Communication between CGO and representatives of inst. investors	0.006 (0.021)	0.040 (0.028)
Communication between IRO and representatives of inst. investors	0.035 (0.022)	0.029 (0.025)
Level of social interaction between CEO and representatives of inst. investors	0.004 (0.018)	0.021 (0.023)
Friendship ties between CEO and representatives of inst. investors	-0.060 [*] (0.026)	-0.026 (0.014)
Log of sales	0.020 (0.031)	0.028 (0.027)
Return on assets	-0.503 (0.264)	-0.482 [*] (0.215)
Market-to-book value	-0.041 (0.031)	-0.043 (0.037)
Corporate diversification	0.091 ^{***} (0.027)	0.100 ^{**} (0.037)
Separation of the CEO and board chair positions	-0.107 (0.055)	-0.110 [*] (0.054)
Independent nominating committee	-0.040 (0.055)	-0.046 (0.052)
Board monitoring and control behavior	-0.020 (0.019)	-0.012 (0.023)
Outsider ratio	-0.151 (0.136)	-0.253 [*] (0.119)
CEO compensation risk	-0.515 ^{***} (0.151)	-0.361 [*] (0.157)
Level of CEO compensation	0.112 ^{***} (0.028)	0.049 [*] (0.020)
CEO ingratiation behavior toward outside directors	0.049 [*] (0.023)	0.055 (0.030)
CEO persuasion attempts toward outside directors	0.039 (0.024)	0.060 [*] (0.029)
Prior CEO ingratiation behavior	0.471 ^{***} (0.048)	
Prior CEO persuasion attempts		0.630 ^{***} (0.060)
Constant	-0.369 (0.282)	-0.207 (0.191)
F	12.83 ^{***}	7.61 ^{***}
R ²	.42	.37

^{*} $p \leq .05$; ^{**} $p \leq .01$; ^{***} $p \leq .001$; z-statistics are one-tailed for hypothesized effects, two-tailed for control variables.

* Standard errors are in parentheses.

persuasion attempts (i.e., levels of below the mean), institutional ownership is not significantly associated with the likelihood of these outcomes at relatively high levels of CEO persuasion. The relationship between institutional ownership and each board reform is contingent on the level of CEO persuasion attempts toward institutional fund managers.

Hypothesis 2 also predicted that the relationship between institutional ownership and increases in the ratio of outside to inside directors on the board would be contingent on the level of CEO interpersonal influence behavior toward institutional fund managers. Table 6 contains the results of three-

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Table 4

Heckman Sample Selection Models of CEO/Board Chair Separation and the Creation of Independent Board Nominating Committees (N = 404)*

Independent variable	CEO/board chair separation		Creation of independent nominating committees	
Level of institutional ownership	0.991 (0.601)	1.427 (0.813)	2.015 [•] (0.898)	2.458 [•] (1.081)
CEO ingratiation behavior	-0.308 [•] (0.130)	-0.201 (0.159)	-0.466 [•] (0.214)	-0.462 (0.245)
CEO persuasion attempts	-0.275 (0.141)	-0.144 (0.148)	-0.438 [•] (0.186)	-0.357 (0.227)
Level of institutional ownership × CEO ingratiation behavior		-3.744 ^{***} (0.722)		-1.582 (0.963)
Level of institutional ownership × CEO persuasion attempts		-2.171 ^{***} (0.558)		-2.458 ^{***} (0.835)
Communication between CFO and representatives of inst. investors	-0.245 [•] (0.121)	-0.250 (0.138)	-0.195 (0.189)	-0.212 (0.200)
Communication between CGO and representatives of inst. investors	-0.169 (0.128)	-0.235 (0.149)	0.059 (0.184)	0.075 (0.186)
Communication between CGO and representatives of inst. investors	-0.169 (0.128)	-0.235 (0.149)	0.059 (0.184)	0.075 (0.186)
Communication between IRO and representatives of inst. investors	-0.170 (0.121)	-0.223 (0.138)	-0.357 (0.195)	-0.368 (0.215)
Level of social interaction between CEO and representatives of inst. investors	-0.111 (0.118)	-0.136 (0.136)	-0.190 (0.186)	-0.218 (0.216)
Friendship ties between CEO and representatives of inst. investors	-0.150 (0.092)	-0.231 [•] (0.112)	-0.302 (0.177)	-0.361 (0.193)
Log of sales	0.397 ^{**} (0.152)	0.444 ^{**} (0.168)	0.140 (0.254)	0.131 (0.279)
Return on assets	-4.311 ^{***} (1.283)	-4.487 ^{***} (1.346)	-4.026 (2.490)	-4.330 (2.616)
Market-to-book value	-0.417 (0.213)	-0.474 (0.255)	-0.282 (0.310)	-0.119 (0.315)
Prior level of corporate diversification	-0.055 (0.195)	-0.071 (0.223)	0.238 (0.313)	0.247 (0.337)
Separation of CEO and board chair positions			2.027 ^{***} (0.602)	2.253 ^{***} (0.651)
Independent nominating committee	0.267 (0.259)	0.302 (0.284)		
Board monitoring and control behavior	0.301 [•] (0.125)	0.341 [•] (0.146)	0.528 [•] (0.239)	0.614 [•] (0.259)
Outsider ratio	0.693 (0.706)	0.848 (0.840)	1.846 (1.272)	1.943 (1.439)
CEO compensation risk	-1.352 (0.761)	-1.941 [•] (0.929)	-2.850 (1.467)	-2.923 (1.562)
Level of CEO compensation	-0.107 (0.119)	-0.106 (0.147)	-0.507 (0.335)	-0.590 (0.341)
CEO ingratiation behavior toward outside directors	0.149 (0.130)	0.155 (0.137)	0.138 (0.135)	0.136 (0.139)
CEO persuasion attempts toward outside directors	0.084 (0.125)	0.087 (0.135)	0.102 (0.115)	0.111 (0.125)
Constant	1.038 (1.114)7	0.834 (1.366)	3.244 (2.528)	2.745 (2.362)
<i>Selection equation:</i>				
Founding prior to agency era	1.158 ^{***} (0.152)	1.158 ^{***} (0.152)	0.795 ^{***} (0.136)	0.795 ^{***} (0.136)
Diversification at founding	0.061 (0.041)	0.061 (0.041)	0.054 (0.029)	0.054 (0.029)
Variance in stock returns among firms in primary industry at founding	0.721 (0.605)	0.721 (0.605)	0.797 (0.448)	0.800 (0.450)
Variance in concentration of primary industry at founding	3.081 (1.866)	3.085 (1.868)	1.212 (1.399)	1.212 (1.399)
Founding prior to agency era × Diversification	0.266 ^{***} (0.078)	0.266 ^{***} (0.078)	0.288 ^{***} (0.068)	0.290 ^{***} (0.069)
Founding prior to agency era × Variance in stock returns among firms in primary industry	2.399 [•] (1.038)	2.399 [•] (1.038)	3.442 ^{***} (0.946)	3.442 ^{***} (0.946)
Founding prior to agency era × Variance in concentration of primary industry	12.759 ^{***} (3.430)	12.801 ^{***} (3.431)	8.177 ^{**} (3.032)	8.177 ^{**} (3.032)
Constant	0.440 (0.376)	0.441 (0.377)	0.315 (0.349)	0.316 (0.350)
Wald χ^2	48.52 ^{***}	63.96 ^{***}	47.45 ^{***}	63.55 ^{***}

• $p \leq .05$; ** $p \leq .01$; *** $p \leq .001$; z-statistics are one-tailed for hypothesized effects, two-tailed for control variables.

*Standard errors are in parentheses.

Table 5

Simple Effects of Institutional Ownership on Board Reforms, CEO Compensation, and Corporate Diversification*

Level of influence behavior	CEO/ board chair separation	Creation of independent nominating committees	Change in CEO cash comp.	Change in CEO LTI comp.	Change in outsiders	Change in insiders	Change in corporate divers.	Change in level of CEO compensation
Low levels of CEO ingratiation (below the mean)	2.63**	2.42*	-2.77**	2.39*	2.83**	-2.58**	-2.75**	-2.67**
High levels of CEO ingratiation (above the mean)	.48	2.10*	-.34	.51	.82	-.55	-.26	-.34
Low levels of CEO persuasion (below the mean)	2.57**	2.44*	-2.74**	2.36*	2.77**	-2.60**	-2.79**	-2.65**
High levels of CEO persuasion (above the mean)	.69	.93	-.41	.48	.73	-.67	-.40	-.52

• $p \leq .05$; ** $p \leq .01$; *** $p \leq .001$.
 * t-statistics are presented.

stage regression models of change in board composition. As shown in model 2, CEO ingratiation and persuasion attempts both negatively interact with institutional ownership to predict change in the number of outsiders on the board. At the same time, both CEO influence behaviors positively interact with institutional ownership to predict change in the number of insiders on the board. As shown in table 5, the analysis of simple effects indicates that although the level of institutional ownership is positively associated with increases in the number of outside directors and negatively associated with increases in the number of inside directors at low levels of CEO ingratiation and persuasion attempts, institutional ownership is unrelated to either outcome at relatively high levels of ingratiation and persuasion. Taken together, these results strongly support the expected contingency relationship between institutional ownership and change in the ratio of outside to inside directors: institutional ownership is positively associated with increases in the outsider ratio at low levels of CEO interpersonal influence behavior, and this relationship becomes weaker with increases in the level of CEO ingratiation and persuasion attempts toward institutional fund managers.

Table 6 also contains the results of three-stage regression models of CEO compensation. The results of these models support hypothesis 3, which predicted that the relationship between institutional ownership and higher compensation risk for CEOs would also be contingent on the level of CEO interpersonal influence behavior toward institutional fund managers. As shown in model 2, CEO ingratiation and persuasion both negatively interact with institutional ownership to predict change in CEOs' long-term incentive (LTI) compensation. At the same time, both influence behaviors positively interact with institutional ownership to predict change in CEOs' cash compensation. As shown in table 5, the analysis of simple effects indicates that although the level of institutional ownership is positively associated with higher CEO LTI compensation and negatively associated with higher CEO

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Table 6

Three-Stage Regression Models of Board Composition and CEO Compensation (N = 404)*

Independent Variable	CEO Compensation Model 1		CEO Compensation Model 2		Board Composition Model 1		Board Composition Model 2	
	Change in CEO cash comp.	Change in CEO LTI comp.	Change in CEO cash comp.	Change in CEO LTI comp.	Change in outsiders	Change in insiders	Change in outsiders	Change in insiders
Level of institutional ownership	-0.252 (0.154)	0.091 (0.229)	-0.249 (0.158)	0.103 (0.233)	0.975 (0.533)	-0.879 (0.446)	0.943 (0.554)	-0.893 (0.460)
CEO ingratiation behavior	0.089* (0.036)	-0.066 (0.054)	0.059 (0.036)	-0.050 (0.054)	-0.244* (0.104)	0.216* (0.102)	-0.189 (0.106)	0.161 (0.104)
CEO persuasion attempts	0.075* (0.032)	-0.068 (0.048)	0.049 (0.034)	-0.056 (0.050)	-0.241* (0.097)	0.178 (0.091)	-0.211* (0.103)	0.137 (0.096)
Level of inst. ownership × CEO ingratiation behavior			1.162*** (0.159)	-0.642** (0.236)			-1.183*** (0.487)	1.072* (0.476)
Level of inst. ownership × CEO persuasion attempts			0.826*** (0.147)	-0.510* (0.218)			-1.323*** (0.455)	0.833* (0.414)
Communication between CFO and reps. of inst. investors	0.020 (0.031)	0.010 (0.047)	0.020 (0.031)	0.015 (0.047)	-0.055 (0.098)	0.064 (0.095)	-0.058 (0.099)	0.071 (0.095)
Communication between CGO and reps. of inst. investors	0.058 (0.036)	-0.023 (0.053)	0.059 (0.036)	-0.023 (0.053)	-0.091 (0.107)	0.140 (0.104)	-0.088 (0.108)	0.129 (0.104)
Communication between IRO and reps. of inst. investors	0.051 (0.035)	-0.039 (0.051)	0.050 (0.035)	-0.042 (0.051)	0.148 (0.106)	0.141 (0.100)	0.151 (0.107)	0.138 (0.100)
Level of social interaction between CEO and reps. of inst. investors	0.058 (0.032)	-0.016 (0.048)	0.057 (0.032)	-0.009 (0.048)	-0.099 (0.097)	0.030 (0.095)	-0.090 (0.098)	0.026 (0.095)
Friendship ties between CEO and reps. of inst. investors	0.077** (0.025)	-0.065 (0.038)	0.074** (0.025)	-0.074 (0.038)	-0.160* (0.076)	0.130 (0.072)	-0.164* (0.076)	0.123 (0.073)
Log of sales	0.143*** (0.026)		0.142*** (0.026)		0.418*** (0.099)		0.414*** (0.099)	
Return on assets	0.404 (0.396)	0.009 (0.588)	0.286 (0.398)	0.008 (0.590)	-0.500 (1.220)	0.716 (1.155)	-0.452 (1.222)	0.600 (1.155)
Market-to-book value	0.120* (0.052)	0.146 (0.078)	0.120* (0.052)	0.151 (0.078)	-0.122 (0.161)	0.035 (0.154)	-0.126 (0.161)	0.016 (0.154)
Level of corporate diversification	0.116* (0.049)	0.123 (0.073)	0.105* (0.049)	0.115 (0.073)	0.316* (0.148)	-0.266 (0.144)	0.311* (0.148)	-0.259 (0.145)
Separation of CEO and board chair positions	-0.440*** (0.078)	0.243* (0.116)	-0.436*** (0.079)	0.241* (0.117)	0.491* (0.243)	-0.551* (0.232)	0.508* (0.244)	-0.569* (0.234)
Independent nominating committee	-0.258*** (0.071)	-0.220 (0.115)	-0.255*** (0.071)	-0.224 (0.115)	0.342 (0.222)	-0.316 (0.208)	0.317 (0.223)	-0.300 (0.210)
Board monitoring and control behavior	-0.126*** (0.033)	0.108* (0.048)	-0.125*** (0.033)	0.103* (0.048)	0.080 (0.104)	-0.108 (0.095)	0.080 (0.104)	-0.108 (0.095)
Outsider ratio	-0.242 (0.172)	0.365 (0.299)	-0.245 (0.173)	0.347 (0.299)				
CEO compensation risk					-1.136* (0.536)	1.006 (0.513)	-1.180* (0.539)	0.981 (0.517)
Level of CEO compensation					-0.132 (0.092)	0.157 (0.097)	-0.132 (0.093)	0.164 (0.099)
Change in CEO cash compensation		2.452*** (0.294)		2.370*** (0.297)				
Change in CEO LTI comp.	2.853*** (0.393)		2.874*** (0.402)					
Change in number of outside directors						-0.656*** (0.088)		-0.649*** (0.089)
Change in number of inside directors					-0.835*** (0.109)		-0.829*** (0.109)	
CEO ingratiation behavior toward outside directors	0.086* (0.036)	-0.111* (0.053)	0.087* (0.036)	-0.125* (0.053)	-0.170 (0.111)	0.205 (0.104)	-0.169 (0.111)	0.193 (0.103)
CEO persuasion attempts toward outside directors	0.076* (0.035)	-0.104 (0.052)	0.078* (0.035)	-0.115* (0.052)	-0.151 (0.109)	0.167 (0.104)	-0.154 (0.109)	0.161 (0.103)
Constant	0.740** (0.259)	0.930 (0.563)	0.697** (0.260)	0.893 (0.565)				
χ ²	750.87***	477.40***	935.98***	556.52***	357.14***	367.63***	378.31***	382.39***

* $p \leq .05$; ** $p \leq .01$; *** $p \leq .001$; z-statistics are one-tailed for hypothesized effects, two-tailed for control variables.

* Standard errors are in parentheses.

cash compensation at low levels of CEO ingratiation and persuasion attempts, institutional ownership is unrelated to either form of compensation at high levels of ingratiation and persuasion. Thus the results support the expected contingency relationship between institutional ownership and increases in compensation risk for CEOs: institutional ownership is positively associated with such increases at low levels of CEO interpersonal influence behavior, and this relationship becomes weaker as the level of CEO ingratiation and persuasion attempts toward institutional fund managers increase.

The results of multiple regression models of change in the level of CEO compensation are provided in table 7. Consistent with hypothesis 3, CEO ingratiation and persuasion attempts both significantly interact with institutional ownership to predict change in the level of CEO compensation. As shown in table 5, the analysis of simple effects indicates that though the level of institutional ownership is negatively associated with higher levels of CEO compensation at low levels of CEO ingratiation and persuasion attempts, institutional ownership is unrelated to CEO pay at high levels of ingratiation and persuasion. Finally, the results confirm that the relationship between institutional ownership and change in corporate diversification is contingent on CEOs' interpersonal influence behavior. As shown in table 7, CEO ingratiation and persuasion attempts both significantly interact with the level of institutional ownership to predict change in corporate diversification. Further review of the simple effects in table 5 reveals that though the level of institutional ownership is negatively associated with higher levels of corporate diversification at low levels of CEO ingratiation and persuasion attempts, institutional ownership is unrelated to diversification at high levels of interpersonal influence behavior. The magnitude of the hypothesized effects is considerable. For instance, at relatively high levels of institutional ownership (e.g., one standard deviation above the mean), an increase in ingratiation from the mean level that involves a combination of (1) complimenting institutional fund managers three more times during the past twelve months, (2) expressing agreement with fund managers three more times during that period, and (3) doing two more personal favors for fund managers during that time reduces the likelihood of CEO/board chair separation by 62 percent, raises the rate at which CEO compensation increases by 37 percent, and reduces the rate at which compensation risk increases by 59 percent.²

Our theoretical perspective suggested that CEOs' ingratiation and persuasion attempts would deter institutional fund managers from coercing change. To test this argument more directly, we used data from a follow-up survey to assess the extent to which institutional fund managers had threatened to file shareholder resolutions, launch proxy contests, and engage in media condemnation to force changes in board structure, compensation, or strategy. The survey was sent to top managers who responded to the initial survey. The response rate was 48 percent (N = 195). The survey included six items that assessed the extent to which institutional investors had threatened to engage in the above-mentioned actions during the prior two years (e.g., "During the past two

2

In separate analyses, we tested the joint effects of the interaction terms and the component variables on each dependent variable. The effects were consistently significant, with the exception of joint effects of the independent variables on the creation of independent nominating committees.

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Table 7

Multiple Regression Models of Corporate Diversification and CEO Compensation (N = 404)*

Independent variable	Change in corporate diversification		Change in level of CEO compensation	
Level of institutional ownership	-0.102 (0.084)	-0.104 (0.082)	-0.199 (0.183)	-0.212 (0.180)
CEO ingratiation behavior	0.041 [*] (0.020)	0.025 (0.019)	0.092 [*] (0.042)	0.042 (0.041)
CEO persuasion attempts	0.032 (0.018)	0.019 (0.018)	0.083 [*] (0.038)	0.037 (0.040)
Level of institutional ownership × CEO ingratiation behavior		0.484 ^{***} (0.084)		0.850 ^{***} (0.189)
Level of institutional ownership × CEO persuasion attempts		0.363 ^{***} (0.077)		0.547 ^{***} (0.173)
Communication between CFO and representatives of inst. investors	0.016 (0.017)	0.014 (0.017)	0.016 (0.037)	0.051 (0.037)
Communication between CGO and representatives of inst. investors	-0.006 (0.019)	-0.002 (0.019)	0.065 (0.042)	0.086 [*] (0.042)
Communication between IRO and representatives of inst. investors	0.030 (0.019)	0.024 (0.018)	0.050 (0.041)	0.033 (0.041)
Level of social interaction between CEO and representatives of inst. investors	0.022 (0.018)	0.025 (0.017)	0.064 (0.038)	0.062 (0.038)
Friendship ties between CEO and representatives of inst. investors	0.014 (0.014)	0.023 (0.013)	0.077 ^{**} (0.029)	0.071 ^{**} (0.027)
Log of sales	0.061 ^{**} (0.022)	0.058 ^{**} (0.021)	0.219 ^{***} (0.033)	0.212 ^{***} (0.033)
Return on assets	0.002 (0.216)	0.043 (0.211)	0.460 (0.470)	0.524 (0.468)
Market-to-book value	-0.024 (0.028)	-0.015 (0.028)	0.097 (0.062)	0.093 (0.062)
Separation of CEO and board chair positions	-0.094 [*] (0.042)	-0.092 [*] (0.042)	-0.413 ^{***} (0.092)	-0.417 ^{***} (0.092)
Independent nominating committee	-0.064 (0.046)	-0.062 (0.045)	-0.242 ^{**} (0.088)	-0.238 ^{**} (0.094)
Board monitoring and control behavior	-0.038 [*] (0.018)	-0.036 [*] (0.017)	-0.120 ^{**} (0.039)	-0.125 ^{***} (0.038)
Outsider ratio	-0.097 (0.110)	-0.053 (0.107)	-0.351 (0.217)	-0.369 (0.228)
CEO compensation risk	-0.060 (0.114)	-0.087 (0.112)	0.678 ^{**} (0.222)	0.700 ^{**} (0.225)
CEO ingratiation behavior toward outside directors	0.044 [*] (0.019)	0.042 [*] (0.019)	0.099 [*] (0.042)	0.096 [*] (0.042)
CEO persuasion attempts toward outside directors	0.041 [*] (0.019)	0.039 [*] (0.019)	0.094 [*] (0.041)	0.091 [*] (0.041)
Constant	0.300 (0.178)	0.334 (0.175)	0.391 (0.208)	0.353 (0.205)
F	20.43 ^{***}	24.95 ^{***}	24.27 ^{***}	28.97 ^{***}
R ²	.55	.67	.58	.68

^{*} $p \leq .05$; ^{**} $p \leq .01$; ^{***} $p \leq .001$; z-statistics are one-tailed for hypothesized effects, two-tailed for control variables.

* Standard errors are in parentheses.

years, to what extent have institutional investors pressured you to make changes in board structure and composition that increase the board's independence from top management by threatening to initiate proxy contests, file shareholder resolutions, and/or condemn the firm's corporate governance practices in the media?"). Managers responded on a five-point scale, from "not at all" to "very much so." The reliability of this scale was adequate ($\alpha = .84$), and factor analysis confirmed that the items loaded on one factor as expected. In separate analyses (results available from the authors), we formally tested whether this measure of coercion mediates the effects of ingratiation and persuasion on the dependent variables, using the procedures recommended by Baron and Kenny (1986) and Sobel (1982). This test showed that

(reduced) coercion does significantly mediate the effects of CEO interpersonal influence behavior on all the dependent variables except the creation of independent nominating committees (z values ranged from 2.11 to 2.40). Thus we found consistent evidence that the hypothesized effects of CEO ingratiation and persuasion attempts were significantly mediated by a reduced propensity for institutional investors to threaten management with proxy contests, shareholder proposals, or media condemnation. At the same time, responses to other questions on the follow-up survey indicated that if institutional investors do pressure corporate leaders, they typically threaten to engage in a series of actions, first initiating shareholder resolutions that call for specific changes and then initiating a proxy contest if the resolutions are not adopted by management, while also engaging in a media campaign to publicize the need for reform.

In further analyses, we examined the influence of CEOs' interpersonal influence behavior on other board reforms, including increases in the portion of the board comprising non-affiliated directors and increased use of performance-contingent compensation for directors. Following several prior studies, we operationalized non-affiliated directors as individuals who lack any business relationship to the firm (other than their directorship) and who are not retired from the firm, connected to top management by a reciprocal board tie (i.e., such that an executive of the focal firm serves on the board of the director's home company), or connected to executives by a family tie (Anderson and Reeb, 2004; Frankel, McVay, and Soliman, 2006). In three-stage regression models that mirror those in table 5, we found significant interactions between the level of institutional ownership and both forms of CEO interpersonal influence behavior on increases in the portion of boards comprising non-affiliated directors. A similar pattern of results emerged in models that estimated increased use of performance-contingent director compensation. These supplemental results provided further evidence that CEOs' interpersonal influence behavior toward institutional fund managers reduces the likelihood or extent of board reforms that increase the board's independence from management. These effects were also mediated by a reduced propensity for institutional investors to threaten management with proxy contests, shareholder proposals, or media condemnation if the firm did not initiate reforms in corporate governance and strategy.

Separate survey questions provided insight into the specific content of CEOs' ingratiation and persuasion attempts. For instance, 92 percent of the respondents who reported having engaged in persuasion attempts toward institutional fund managers agreed or strongly agreed with the following statement: "In communicating with institutional fund managers over the past twelve months, I have tried to make the case that directors frequently challenge top management on strategic issues and independently evaluate management performance." Moreover, a large portion of the respondents (89 percent) who engaged in persuasion attempts agreed or strongly agreed that "every time I communicate with an institutional fund manager I cite specific examples in which direc-

tors on my board challenged me on a strategic issue," and a similarly large portion of those respondents (88 percent) agreed that "every time I communicate with an institutional fund manager I refer to my experience on other boards in making the case that our company has a strong board." In addition, a large portion of the responding fund managers (86 percent) who reported having been the recipient of persuasion attempts by an outside director at a firm with relatively high CEO compensation (above the median) or low compensation risk (below the median) agreed or strongly agreed with the following statement: "In communicating with [the director] over the past twelve months, [the director] made the case that the CEO's compensation package helps to retain the CEO." This suggests that persuasion attempts pertaining to CEO compensation tended to invoke a human resource logic for generous compensation contracts, in which high levels of CEO pay and low compensation risk are portrayed as a means of retaining talented leaders who are in demand on the executive labor market. Finally, 90 percent of the fund managers who reported having been the recipient of persuasion attempts by the CEO of a firm with a relatively high level of corporate diversification (above the median) agreed that "in communicating with [the CEO] over the past twelve months, [the CEO] made the case that the board's strategy is to leverage or exploit the firm's unique capabilities in new markets."

Regarding the specific content of ingratiation behavior, flattery commonly involved complimenting a fund manager on his or her investment performance or noting the manager's excellent professional reputation: 88 percent of the fund managers who reported having received compliments from a CEO during the past year agreed that the CEO had made one or both of these remarks. Opinion conformity often involved expressing agreement with the fund manager's opinion(s) about a corporate governance issue or expressing agreement with the fund manager's investment philosophy or approach: 91 percent of the fund managers who reported having received compliments from a CEO during the past year also agreed that the CEO had made one or both of these remarks. Examples of CEO favor rendering reported by fund managers included the following: (1) putting managers in contact with personnel at buyer or supplier firms to gain further information about industry conditions or specific firms in the industry for investment purposes; (2) personally relaying information gleaned from fellow top managers or directors about a fund manager's portfolio firm or a potential investment opportunity; (3) recommending or referring the fund manager for a job position or appointment; (4) offering advice on a career matter; or (5) helping the manager gain entry to a private social club or other exclusive organization (87 percent of the favors reported fall into one or more of these categories).

Although interpersonal influence behavior was specified as a moderating variable in these analyses, in his study of CEO-board relations, Westphal (1998) specified interpersonal influence behavior as a mediating variable in the relationship between board independence from management and various organizational outcomes. CEO ingratiation and persuasion

were specified as moderating variables in the present study because we expected the relationship between institutional ownership and organizational outcomes to be contingent on CEOs' interpersonal influence behavior (i.e., we did not necessarily expect ownership to have a significant overall or total effect on board reforms, compensation, or diversification), and such a contingency relationship is best specified as an interaction. In separate path analyses, we specified CEO ingratiation and persuasion as mediators of relationships between institutional ownership and several of the dependent variables (level of CEO compensation, compensation risk, and corporate diversification). In each case, the model fit was significantly lower than that of the interaction models.

Finally, in separate analyses, we tested the hypotheses for pressure-sensitive institutional investors such as banks. We expected a priori that the hypothesized relationships would not hold for such investors, as they are widely believed to lack sufficient power to coerce change in corporate governance, such that CEOs would not be motivated to engage in influence behavior toward them, and there would not be a contingent relationship between ownership by such investors and corporate governance and strategy. As expected, separate analyses confirmed that the hypothesized effects were consistently weaker for ownership by pressure-sensitive institutional investors: the level of ownership by such investors did not significantly predict the level of CEO ingratiation and persuasion, and interactions between ownership by pressure-sensitive investors and board reforms, CEO compensation, and diversification were consistently non-significant.

DISCUSSION

Overall, the results of this study support our theoretical perspective on power and influence in the relationship between top managers and institutional investors. The first set of results showed that high levels of institutional ownership increase the frequency with which CEOs engage in ingratiation behavior and persuasion attempts toward institutional fund managers. These findings support our contention that when institutional ownership is relatively high, CEOs are likely to engage in persuasion and ingratiation tactics to deter representatives of institutional investors from using their ownership power to the detriment of CEOs' interests. The second set of results provided evidence that these interpersonal behaviors are generally effective in influencing institutional owners. The relationship between institutional ownership and the adoption of board reforms that are thought to reduce CEOs' discretion over strategy and policy outcomes is contingent on CEO ingratiation and persuasion attempts toward institutional fund managers. Although institutional ownership was positively related to the adoption of these reforms at low levels of CEO ingratiation and persuasion, it was not significantly associated with these reforms at relatively high levels of CEO interpersonal influence behavior.

Further results suggested a very similar contingency in the relationship between institutional ownership and change in the level of CEO compensation, CEO compensation risk, and

corporate diversification. At low levels of ingratiation and persuasion attempts toward fund managers, relatively high institutional ownership constrained the level of CEO compensation and the level of corporate diversification, and promoted higher levels of CEO compensation risk, but these relationships were not significant at relatively high levels of CEO influence behavior. Further analyses suggested that the effects of CEO ingratiation and persuasion on corporate governance and strategy are mediated by a reduced tendency for institutional investors to threaten management with shareholder proposals, proxy contests, or media condemnation if the firm does not engage in reform.³

Our study contributes to the corporate governance literature by suggesting why increased ownership by institutional investors may have failed to yield widespread changes in the governance and strategy of U.S. companies. Although institutional owners have the ability to leverage their voting power and media influence to force changes in governance and strategy that favor shareholders' interests, reviews of the empirical literature have generally concluded that the level of institutional ownership has mixed and often weak or insignificant effects on a variety of organizational outcomes that are thought to benefit shareholders (e.g., Black, 1998; Kang and Sorenson, 1999; Daily, Dalton, and Cannella, 2003). Our study offers a theoretical explanation for these findings. It appears that relatively high levels of institutional ownership prompt CEOs to engage in interpersonal influence behaviors toward investor representatives that effectively deter the latter from leveraging their ownership power to force changes in governance and strategy that would tend to benefit shareholders but at the expense of management's interests. Our theory and findings thus suggest how, or by what theoretical mechanism, CEOs can effectively manage the power of institutional investors.

Our study also contributes to the governance literature by suggesting a more complete theoretical perspective on power in manager-shareholder relationships. Extant work in management, strategy, and financial economics focuses primarily on coercive power as a source of influence in such relationships, based on the ability of large institutional owners to force companies to adopt governance reforms by threatening to initiate shareholder resolutions, proxy contests, and media condemnation of companies with poor governance practices. Our theory and supportive findings suggest that CEOs' interpersonal influence behavior provides an alternative source of influence in manager-shareholder relationships. In effect, by engaging in persuasion and ingratiation tactics toward institutional fund managers that leverage the CEOs' social status and knowledge asymmetries vis-à-vis shareholders, CEOs can deter powerful owners from converting their ownership power into influence over governance and strategy.

Supplemental qualitative data from our interviews illustrated the specific content of CEOs' persuasion attempts. Our theoretical argument suggested that CEOs may offer specific anecdotes to support their claims that directors monitor and control management. Consistent with this notion, one CEO

3 Separate analyses provided no evidence for curvilinearity in any of the hypothesized relationships.

we interviewed recounted, "I talk about specific instances [of board control] . . . for example, last time I talked to [a fund manager], I told him how we were discussing [a particular acquisition] at the last meeting, and [an outside director] really got on me about showing the growth potential of that business . . . he wanted numbers so I had to go back and get some better evidence." Interviews also indicated that CEOs sometimes make their experience on boards salient to fund managers to enhance the credibility of their claims about the quality of board involvement. For instance, a fund manager recalled a conversation in which a CEO told him, "I've served on many boards and believe me, this is an effective board." Moreover, consistent with our intuition that CEOs may recruit an independent director to provide testimony that backs up the CEO's claims about the board, one CEO suggested that "it is important that they hear good things about the board from more than one place . . . when I told [the fund manager] about [a director] challenging me on the merits of that acquisition, [another director] repeated the story a little while later. Did we get our stories straight? You bet." Interviews also suggested how directors may invoke the human resource logic to justify high CEO compensation or relatively low compensation contingency. For instance, one director told us, "I tried to explain to [the fund manager] that if we lower [the CEO's] pay he might just take a better offer somewhere else . . . it is simple supply and demand, not many people have his experience base." Similarly, another director said, "I had to educate [the fund manager] on this a bit . . . the CEO is not going to accept such a high degree of risk [in his compensation contract]. He will take a better offer somewhere else, and then we will have lost a uniquely valuable asset" (i.e., the CEO).

Our theory and findings extend Westphal's (1998) work on CEO-board relations, which showed that interpersonal influence behaviors, particularly ingratiation behavior and persuasion, are important sources of influence for top managers in their relations with powerful board members (see also Maitlis, 2004). While Westphal's (1998) research addressed how top executives rely on interpersonal influence processes to maintain control over fellow board members, the present study builds on this prior work to suggest how corporate leaders may also use interpersonal influence tactics to maintain control over important external constituents (i.e., institutional investors). The present study thus extends prior evidence that interpersonal influence behaviors can neutralize "internal control mechanisms" to show how similar behaviors can effectively neutralize "external control mechanisms" as well (Walsh and Seward, 1990: 421). More generally, though interpersonal influence processes are recognized as important determinants of power among actors inside organizations, power in relationships between managers and external constituents is often assumed to be determined by economic and legal factors (Shleifer and Vishny, 1986; Bhojraj and Sengupta, 2003; Velury, Reisch, and O'Reilly, 2003). Those studies that have adopted a more behavioral perspective on power and influence in relations between managers and external constituents have tended to focus on how managers engage in overt, public actions such as symbolic

changes in corporate governance or impression management in press releases to pacify constituents (e.g., Elsbach, 1994; Westphal and Zajac, 1998; Porac, Wade, and Pollock, 1999; Siegel and Brockner, 2005). Thus, whereas prior research has focused on public forms of influence in relations between corporate leaders and external constituents, our findings suggest the importance of examining interpersonal sources of influence in such relationships (Skeel, 2001).

This study also contributes to the larger literature on social influence. While very little research has directly examined the social influence behavior of corporate elites (Westphal, 1998; Maitlis, 2004), there has also been little prior research on the organization-level consequences of social influence processes (Liden and Mitchell, 1988; Staw and Sutton, 1992; Westphal, 1998). Our theory and findings suggest how social influence processes can have an impact on a range of organization-level policies and strategies. Accordingly, this study demonstrates that there is value in modeling the effects of micro-level social processes to understand relationships between macro-level organizational phenomena.

From a methodological standpoint, this study was based on a unique dataset comprising survey data on interpersonal influence tactics collected from a large sample of top executives and representatives of institutional investors. We were able to obtain a relatively high response rate and provide evidence of interrater reliability of our survey measures, while controlling for a variety of factors that could be correlated with our independent and dependent variables. Moreover, we used data from a follow-up survey to provide further confirmation of our theory by showing that the hypothesized effects of CEO behavior were mediated by a reduced propensity for institutional investors to threaten management with proxy contests, shareholder proposals, or media condemnation. By combining our survey data with longitudinal archival data on board structure, CEO compensation, and diversification, we were also able to resolve possible concerns about reverse causality. Because board reform could tend to be negatively associated with subsequent interpersonal influence behavior by CEOs toward institutional fund managers, we controlled for various sources of board independence at the time of the survey in estimating subsequent board reforms and lagged our dependent variables. The potential for reverse causality in these models appears to be limited, however, even without controlling for existing board structure and composition, as our results indicate that prior board reforms are generally not significantly associated with subsequent CEO ingratiation and persuasion attempts. In any event, the hypothesized effects of CEO interpersonal influence behavior remain significant whether or not controls for existing board structure and composition are included in the models. We hope that the apparent success of this empirical approach will motivate further survey research on interpersonal influence behavior in relations between managers and external constituents.

Future research should examine other possible consequences of interpersonal influence behavior toward representatives of institutional investors. It would be interesting to investigate, for instance, whether CEOs' ingratiation and per-

suasion attempts influence the investment decisions of institutional fund managers. Researchers could also examine whether top managers engage in interpersonal influence behavior toward other corporate stakeholders, including sell-side analysts and public policy makers, and examine the organizational consequences of such behavior. There is anecdotal evidence that at least some corporate leaders engage in ingratiation and persuasion tactics with security analysts (Kuperman, 2003; Chen and Matsumoto, 2006). Researchers could measure such behavior with surveys of top managers and analysts, perhaps supplemented with in-depth interviews, and examine whether ingratiation and persuasion attempts by top executives have a discernible impact on analysts' stock recommendations. Similarly, there would be value in examining the content and consequences of executive communications with representatives of regulatory agencies.

Several limitations of this study should be noted. First, we have not considered how managers' characteristics could moderate the effectiveness of interpersonal influence behavior. For instance, there is some evidence that influence agents who are high self-monitors are especially effective ingratiators (Turnley and Bolino, 2001). A future study might examine whether self-monitoring or related personality characteristics could moderate the effectiveness of executive ingratiation toward external constituents. Moreover, a limitation of our supplemental analysis that examined how diminished threats to initiate shareholder resolutions, proxy contests, and media condemnation mediate the effects of CEO ingratiation and persuasion on corporate governance and strategy is that it relied on perceptual data, though the independent and mediating variables were measured with separate surveys. Future research is needed that examines whether archival and/or qualitative measures of coercive behavior by institutional investors are similarly affected by CEOs' interpersonal influence behavior. In addition, our study did not address the relationship between CEOs' interpersonal influence behavior and organizational impression management. Our supplementary finding that CEO self-handicapping in letters to shareholders appears to be unrelated to ingratiation and persuasion behavior suggests that public and interpersonal forms of CEO influence could be independent. This result provides only preliminary evidence, however, and further research is needed on the relationship between various forms of organizational impression management and CEOs' interpersonal influence tactics. Finally, our study does not consider the possibility that relatively experienced institutional fund managers could be less vulnerable to CEOs' interpersonal influence behavior. This limitation reflects a larger weakness in the organizational literature on interpersonal influence, which has given little empirical attention to individual differences in the susceptibility of influence targets to ingratiation and related social influence tactics (Westphal and Stern, 2006).

A growing literature in organization theory and strategic management suggests that the value of corporate policies is often socially constructed by corporate leaders and stake-

holders (Pollock and Rindova, 2003). Yet corporate leaders are typically viewed as having a fairly passive role in this process. Research on interpersonal influence processes in manager-constituent relations may contribute to this literature by suggesting how corporate leaders can actively influence the social construction of corporate policies by engaging in social influence behavior with important constituents of the firm.

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