BOARDROOM REFEREES: INDEPENDENT DIRECTORS, INTERNAL DISAGREEMENT, AND STRATEGIC CHANGE

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ABSTRACT

What happens when the CEO and the board chair have different strategic visions? We suggest that independent directors play a significant role in resolving any resulting disagreements. We evaluate our theory by focusing on a specific CEO turnover context that prior research suggests is likely to lead to disagreements – a new outsider CEO who prefers change and a board chair who is the immediate predecessor CEO and prefers consistency. Our empirical results show that board independence is positively related to strategic change in this specific CEO succession context, but not in other contexts. This study underscores the contingent role of independent directors, and contributes to research on corporate governance and strategic change.
INTRODUCTION

Strategic change is an important part of organizational adaptation and evolution. Prior research has shown that, even when change might be beneficial, important managerial factors may create frictions that limit strategic change (Wiersema and Bantel, 1992; Fondas and Wiersema, 1997; Zhang, 2006). Specifically, both CEOs (e.g., Boeker, 1997; Zhang and Rajagopalan, 2010) and Boards of Directors (e.g., Haynes and Hillman, 2010; Golden and Zajac, 2001) play important roles in driving organizational change. Yet organizational leaders may not always share the same vision for the company, and existing literature has done little to explore these dynamics.

In this study, we highlight the roles played by the CEO, the board chair, and independent directors in driving organizational change. We do so by focusing on a specific context in which prior research suggests divergent strategic views between the CEO and the board chair. Specifically, in CEO turnover events where the new CEO is a change-minded outsider (Wiersema, 1992; Shen and Cannella, 2002) but where the board chair is the immediate predecessor CEO with a desire to preserve the status quo (Quigley and Hambrick, 2012), a unique source of tension emerges between these two high profile and highly powered actors within the organization. We claim that the outcome of any potential disagreements between the new CEO and the board chair (the predecessor CEO) will hinge upon the degree of board independence (Westphal, 1999), as independent directors (those who are not also executives with the firm) may be less beholden to the will of the predecessor CEO.

We examine 170 CEO succession events in U.S. publicly-traded firms with both an outsider new CEO and the predecessor CEO as board chair. We address the endogeneity of board independence by exploiting exogenous changes in the corporate governance environment that led to a sharp rise in board independence. Consistent with our theory, board independence increases
post-succession strategic change when the new CEO is an outsider and the former CEO is the board chair (where we expect disagreements), but not in other turnover contexts.

This study makes two primary contributions. First, we contribute to the literature on managerial impediments to the implementation of strategic change in organizations, which to this point has largely focused on the role of managerial demographic (Boeker, 1997; Wiersema and Bantel, 1992) or cognitive (Eggers and Kaplan, 2009; Cho and Hambrick, 2006) factors in explaining inertia, but has not investigated the impact of conflicting managerial perspectives on change. Second, we offer insight for the corporate governance literature into one specific context in which board independence is important. Prior research has suggested that board independence should be expected to affect firm outcomes, but most existing empirical research has found little support (Baysinger and Butler, 1985; Dalton, Daily, Ellstrand and Johnson, 1998). Recent calls (e.g., Daily, Dalton and Cannella, 2003) have argued for considering circumstances under which board independence plays an important role, such as the conflict resolution situation studied here. Our results suggest that the effect of independent directors and the board after selecting a new CEO may revolve around conflict arbitration, and have implications for the on-going debate on the separation of CEO and board chair.

THEORETICAL DEVELOPMENT

Divergent Perspectives from CEOs Old and New

Extant literature on managerial factors affecting strategic change has highlighted (among others) two important factors that affect change. First, recent literature suggests that the presence of the predecessor CEO on the board of directors as chair may limit the degree of strategic change realized by the firm post-succession. Quigley and Hambrick (2012) demonstrate reduced levels of post-CEO succession strategic change when former CEOs remain on the board as chair. One
explanation offered is that the former CEO ‘is less likely to see the wisdom in new strategies, structures, processes, or people’ and is likely to restrict the discretion of the new CEO, thus limiting strategic change (Quigley and Hambrick, 2012: 838).

Recent events at Men’s Wearhouse highlight this perspective, as the board chair George Zimmer (who was CEO until 2011) was removed from the board in 2013 after conflicts with other organizational leaders. Zimmer stated that his goal was ‘preserving the unique culture and values that have made the company so successful over the years’ (Peterson, 2013) when the board accused Zimmer of ‘expect[ing] veto power over significant corporate decisions’ and not ‘accept[ing] anything other than full control of the company’ (Men’s Wearhouse, 2013). Thus, we expect that the predecessor CEO as board chair will try to limit a firm’s post-succession strategic change.

Second, prior literature suggests that the degree of post-turnover change under new CEOs that are outsiders (not previously affiliated with the company) will be higher than those that were insiders (previous firm employees) (Helmich and Brown, 1972; Shen and Cannella, 2002; Karaevli, 2007). Wiersema (1992) outlines a number of reasons why outsiders might be more likely to enact significant strategic change in their new organization, including differences in cognitive frames, changes in top management team homogeneity, lack of commitments to prior decisions, changes in levels of autonomy, and agency issues. Thus, we expect that a newly-appointed CEO who is a firm outsider will be inclined to support significant post-turnover change within the organization, and this perspective may place the new CEO directly opposed to the former CEO, creating the potential for significant conflict.

The recent CEO succession events at JC Penney illustrate such dynamics. In 2011, the struggling US-based retailer replaced its CEO, Myron Ullman, with long-time Apple executive
Ron Johnson, who during his eleven years at Apple had been credited with much of the Apple Store’s retail success. While Johnson talked about a bold new vision for JC Penney, saying that he wanted to ‘re-imagine…American retailing’ (D’Innocenzio, 2011), little changed within JC Penney immediately after the hire. One explanation for the slow start may be that deposed-CEO Ullman hadn’t left JC Penney, but remained as the chair of the Board of Directors. It was only after Ullman left as board chair that Johnson began to implement his radical plans to reshape JC Penney (Macke, 2013). ¹

While measuring the strategic visions of the CEO and board chair may be difficult, the prior literature and the anecdotal evidence above point out a specific context that strongly correlates with differences in preferred strategic change. These two preferences – one for change and one for consistency – are likely to result in divergent strategic objectives. Given the power possessed by the two opposing and powerful actors, the way in which this potential conflict will be resolved is ambiguous. Such ambiguity does not exist in other CEO turnover situations. For example, when the former CEO is not on the Board (regardless of the new CEO’s background), there is no obvious source of conflict and we expect that change will be significant. By contrast, when the new CEO is an insider and the predecessor CEO remains on the board as chair, the context is likely a planned succession event, and both actors are likely to prefer little strategic change. Thus, we focus our efforts on the context where the new CEO is an outsider but the predecessor CEO is on the Board as chair, as this CEO succession context is most likely to lead to important disagreements between two powerful actors within the organization.

¹ Johnson’s aggressive plans, however, did more harm than good, as the firm’s shares lost half of their value between Johnson’s ascension and early 2013. At that point, the JC Penney board acted again and replaced Johnson with his predecessor, Ullman (Berkowitz, 2013; Geller, 2013).
The Role of Independent Directors

Given the potential for conflict outlined above between the old and the new CEO, we suggest that the deciding opinion in this conflict will be the board of directors, and particularly that independent directors will have a significant impact on the resolution of this conflict. Indeed, when the Men’s Wearhouse board forced out Zimmer, their statement said that Zimmer ‘had difficulty accepting the fact that Men’s Wearhouse is a public company with an independent Board of Directors’ (Men’s Wearhouse, 2013). Board independence has long been an important factor in research on corporate governance. The finance and economics literatures, focusing on concerns about agency among CEOs and executive board members, suggest that board independence will affect organizational behavior and performance (Hermalin and Weisbach, 1998; Raheja, 2005). Early research suggested that board independence would have important positive implications for organizations (Baysinger and Butler, 1985; Rosenstein and Wyatt, 1990). Despite this importance, meta analysis has found no relationship between board independence and firm performance (Dalton, et al., 1998), and a review by Daily, Dalton and Cannella (2003: 375) stated that, ‘given the importance of boards of directors in corporate governance research, it is intriguing that extant studies have failed to reveal a systematic significant relationship between independence and firm financial performance.’ The authors advocated investigating intervening mechanisms that uncover the role of board independence in a more granular and focused way. We suggest that the potential conflict between a new CEO and the board chair may be a specific context in which independent directors may play a significant role in directing organizational outcomes.

Independent directors are included on the board to guard shareholder interests against agency concerns (Duchin, Matsusaka and Ozbas, 2010; Linck, Netter and Yang, 2008). While
this typically means concerns about expropriation by the CEO, in our context the concern is about inertia by the former CEO who remains the board chair. In a succession event, the new CEO – especially an outsider CEO – will be seen as an agent for change beneficial to the firm (Westphal and Fredrickson, 2001). So when the former CEO (current board chair) and the new CEO offer conflicting strategic perspectives for the firm, we expect that independent directors will side with the new outsider CEO who offers the strategic change that is perceived to enhance shareholder interests. Meanwhile, a board full of insiders would be likely to have strong connections with the former CEO and her legacy, and be more focused on maintaining the existing direction of the firm, even with a new CEO in place. Thus, we hypothesize that:

_Hypothesis: In CEO turnover events where the new CEO is an outsider and the predecessor CEO is the post-succession board chair, the degree of board independence will be positively related to subsequent strategic change._

**DATA AND METHODS**

**Sample and Data Sources**

We draw our sample from the BoardEx database, identifying all CEO successions between 2000 and 2008. We match the sample with Compustat and the Center for Research in Security Prices database to obtain data on the firms. We eliminate firms that experienced multiple CEO turnovers, and those with missing information. Our final dataset contains 734 CEO succession events, of which 170 represent events where the predecessor CEOs were the post-succession board chair and the successor CEOs were outsiders. Our primary analysis focuses on these 170 succession events, but we compare our results with those for the other 564 succession events.

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2 We identify 239 firms in the database that experienced multiple CEO turnovers. The average duration between successive CEOs is 2.7 years among these firms. We exclude these firms in our analysis because the short time span between successive CEOs could raise an empirical issue where strategic change by one CEO lingers on and confounds our measurement of strategic change by the successor CEO.

3 Due to the timing difference between the CEO succession and the board annual meeting date when board memberships are typically renewed, the predecessor CEO may remain on the board until the next annual meeting. In
Such an approach allows us to account for potential endogeneity in the process of CEO succession. For example, Boards of Directors do not randomly choose whether or not to retain the predecessor CEO on the board, or whether to hire an insider or an outsider. Prior studies have attempted to deal with this endogeneity issue through matching process (Fahlenbrach et al., 2011) or Heckman selection approach (Quigley and Hambrick, 2012). Our approach of focusing only on a relatively homogenous set of CEO succession events (i.e., where the former CEO remains on the board and the new CEO is an outsider) alleviates concerns about this source of endogeneity, and allow us to focus on addressing another source of endogeneity related to our main independent variable – the level of board independence – with instrumental variable analysis. We will elaborate our approach in the empirical method subsection.

**Measures**

Strategic change represents a shift in the resource allocation policies and objectives within a firm. Change might mean layoffs or divestments of assets, changes in suppliers or products, or increases in marketing and advertising, among other actions. This multiplicity of ways in which change may manifest complicates empirical research on change. Thankfully, each of the possible actions taken to change the company’s strategy will have a ‘trickle down’ effect that impacts the company’s income statement and/or balance sheet.⁴ Thus, we follow prior work (Finkelstein and Hambrick, 1990) in measuring strategic change by tracking changes in certain key financial measures. Specifically, we focus on four indicators: (1) selling, general, and administrative intensity (SG&A/sales); (2) financial leverage (debt/equity); (3) inventory level

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⁴ For example, a key element of Ullman’s turn-around strategy shortly after succeeding Johnson as J.C. Penney’s CEO was to add new debt to substantially increase home goods inventories (Geller, 2013). Such strategic change would affect the balance sheet via changes in inventories and debt.
(inventory/sales); and (4) plant and equipment newness (net P&E/gross P&E). For each of the four indicators, we first calculate the change between two years prior to the succession (year t-2) and two years after (year t+2). Because our sample covers firms from a diverse set of industries, we adjust for the industry effect by subtracting from each firm’s indicators the industry mean values at the corresponding years. For example, industry-adjusted ΔSG&A intensity = (firm SG&A intensity_{t+2} – firm SG&A intensity_{t-2}) – (industry mean SG&A intensity_{t+2} – industry mean SG&A intensity_{t-2}). We then take the absolute values of the industry-adjusted indicators and divide them by the industry standard deviation values to obtain the standardized absolute values. Finally, we sum the four absolute standardized indicators to develop a composite measure of our dependent variable, strategic change. A greater value of strategic change indicates a greater degree of change has taken place at the firm in the time period surrounding the CEO succession, relative to the industry baseline.

We calculate board independence by taking the ratio of the number of non-executive directors to the total number of directors in the firm at the year of the CEO succession. We treat the predecessor CEO as a non-executive director and the successor CEO as an executive director.

We include controls at the firm, board, and CEO levels to account for other factors that might affect the level of post-turnover strategic change. At the firm level, poor performance may prompt a firm to implement greater strategic change, while good performance may dampen a firm’s incentive to implement strategic change (Park, 2007). We measure firm performance by the industry-adjusted annual return on assets the year prior to the succession. Prior research has suggested that strategic change is more difficult to implement in larger, older, and liquidity-

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5 Prior research has examined additional indicators – such as R&D intensity and advertising intensity (e.g., Zhang and Rajagopal, 2010; Quigley and Hambrick, 2012). We do not incorporate these additional indicators in our main analysis because many firms in our sample did not report R&D or advertising spending. We will address this issue in our robustness analysis.
constrained firms (Zhang and Rajagopalan, 2010). We measure firm size by the logarithm of the market value of equity in millions of dollars; firm age by the number of years since the firm’s first appearance on Compustat; and slack by the ratio of working capital over sales. Because prior studies on strategic change have examined non-diversified firms (Zhang and Rajagopalan 2010; Quigley and Hambrick, 2012), whereas our sample contains both diversified and non-diversified firms, we include an indicator variable, diversified, coded to one if the firm operates multiple business segments and zero otherwise. We lag the above firm-level factors by one year.

At the board level, we measure board size by the total number of directors on the board. To discern between the effects of continuing and new directors on the board, we control for board turnover, measured as the proportion of directors who joined the board after the succession event. We control for the experience of the non-executive directors as follows. We include a variable, qualifications, that measures the average number of post-secondary education credentials held by the independent directors, such as college degree and Certified Public Accountant license. We measure time on board by the average tenure of the non-executive directors on the board.

At the CEO level, we control for the predecessor and successor CEOs characteristics. We measure predecessor tenure by the number of years the former CEO has served on the board prior to the succession. To capture the relative experience between the successor and predecessor CEOs, we include a variable, relative age, calculated by taking the ratio of the successor and the predecessor age at the year of the succession event. Finally, we include in our analysis industry

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6 Our findings remain robust when we instead use the logarithm of the number of employee as proxy for firm size.
7 Our findings remain robust when we use the log of the number of business segments the firm operates as the measure of diversification.
8 Our findings remain robust when we shift our measure of board turnover to include those directors appointed in the year before the succession event.
dummies, coded according to Fama and French (1997), and year dummies to account for heterogeneity across industries and years.

**Empirical method**

To test the effects of board independence on firm strategic change, we employ an instrumental variables regression model which accounts for the endogeneity of the models’ predictor. The first stage of the regression models consists of regressing *board independence* on a set of instruments that satisfy the conditions of relevance and exogeneity (Hamilton and Nickerson, 2003). Our choice of instruments exploits two facts regarding the U.S. corporate governance environment during our sample period. First, board independence increased among U.S. companies as a result of high-profile corporate scandals (e.g., Enron, Tyco, Worldcom) during the early 2000’s and subsequent regulatory responses such as the Sarbanes-Oxley Act (Duchin, *et al.*, 2010). Therefore, CEO succession events that took place later in our sample period had higher levels of board independence. Second, recent research has documented that the corporate governance environment change had differential impacts on large and small boards, leading to differences in board independence growth trends between firms depending on their board size (Linck, *et al.*, 2008; Armstrong, Core, and Guay, 2012). These two facts together suggest that board size, in conjunction with time, can be a predictor of board independence level. With regards to the exogeneity of our instruments, while prior literature has argued that board size, as a stand alone factor, might influence the level of strategic change (Zhang and Rajagopalan, 2010), we have little reason to believe that such board size effect would vary from one year to another.

To construct our set of instruments, we create an indicator variable *small board*, coded to one if the board size is less than the median board size (8 directors) and zero otherwise, and interact the *small board* variable with year dummies. Our concept of using a board size and time
trend interaction as instruments predicting board independence is similar to recent work in corporate governance (e.g. Armstrong et al., 2012).

RESULTS

Descriptive statistics

We report the correlations and descriptive statistics in Table 1. We observe relatively high correlations between time on board and firm age (0.48), board size and firm size (0.59), and slack and firm performance (0.47). While these figures are not surprising, we calculate the variance inflation factors (VIFs) for these variables to assess whether the high correlations could affect our regression results. Of these, we find that the highest VIF is associated with firm age (VIF=3.25), which is below the threshold.

For comparison, we present the descriptive statistics separately according to (a) our focal scenario where the predecessor CEO is the post-succession board chair and the successor is an outsider, and (b) all other succession scenarios. The average firm in our focal scenario has a larger board but lower board independence, and the non-executive directors have longer board tenure. It has greater slack and is more diversified. The age ratio between the successor and the predecessor CEOs is smaller. It is, however, not statistically different from the average firm in the other scenario in terms of the level of strategic change, firm performance, firm size, firm age, the qualifications of the non-executive directors, and predecessor CEO tenure.

[Insert Table 1 Here]

OLS and instrumental variable analyses

We present our main results in Columns 1 to 3 of Table 2. Column 1 shows the results of an OLS model with the control variables only. We add board independence to the OLS model in Column 2, where we find a positive but insignificant relationship between the board independence and
strategic change. Column 3 reports the result of our 2SLS model, where we observe a positive and significant coefficient estimate on board independence.⁹ We assess the magnitude of the board independence effect on strategic change and find it to be reasonably large. Based on the results in Column 3, we estimate that an increase in board independence level by one standard deviation increases strategic change by 0.48 standard deviation. This finding supports our hypothesis that greater board independence increases strategic change in CEO turnover events where the new CEO is an outsider and the predecessor CEO is the post-succession board chair.

[Insert Table 2 Here]

Some of our control variables generate interesting results. Although we do not find statistical significance for predecessor tenure (it is negative as one would expect), the positive and significant relative age coefficient indicates that age disparity between the successor and the predecessor is an important factor in determining whether the successor is able to rise above the influence of the predecessor CEO to push for strategic change. We also note that the coefficient estimate on board turnover is insignificant. This result alleviates our concern that the level of strategic change is driven by new directors who might have joined the board alongside the outsider successor CEO to promote change, rather than independent directors who we argue that are more aligned to the interests of the shareholders and less beholden to the former CEO.

**Board independence effect on strategic change in other CEO succession scenarios**

We follow up our main results by investigating whether board independence affects strategic change in other CEO succession scenarios. If we also observe board independence effect in the

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⁹ We check for endogeneity of board independence with the Durbin-Wu-Hausman test. The result rejects the null hypothesis that board independence is exogenous (p<0.01). This finding substantiates our IV analysis approach. We also assessed the strength of our instruments. In addition to small board, four interaction terms in our instrument set that capture year trends are significant (p<0.05) and one is marginally significant (p=0.06). The first-stage R-squared is 0.21 and the F-statistics for the instruments is 3.91 (p<0.01).
other scenarios, our evidence on the role of independent board members as intermediaries between the predecessor CEO board chair and the outside successor CEO will be less compelling.

We repeat our analysis with observations from the scenarios where the predecessor CEO is not the post-succession board chair, the successor CEO is an insider, or both. Results are reported in Columns 4 to 6 of Table 2. The coefficient estimates on board independence are statistically insignificant in both the OLS and the IV models. The lack of evidence found outside of our focal scenario adds credibility to our main argument on the contingent nature of independent directors as intermediaries between the predecessor CEO board chair and the successor CEO.

**Robustness checks**

In addition to the alternate variables noted earlier, we conduct the following robustness tests. First, to employ a broader measure of strategic change similar to that in prior research (Finkelstein and Hambrick, 1990; Zhang and Rajagopalan, 2010), we expand the number of indicators that constitute the variable from four to six by including the R&D intensity and the advertising intensity.\(^\text{10}\) Our result remains robust under this alternative dependent variable.

Second, this study focuses on the scenario where the predecessor CEO is the post-succession board chair (similar to Quigley and Hambrick (2012)) while other research has examined the broader scenario where the predecessor CEO stayed on the board of directors (Fahlenbrach et al., 2011). When the predecessor CEO is not the board chair her power over the successor CEO may be more limited. Yet she is still likely to disagree with the outsider successor CEO on the level of strategic change, and potentially exert her influence through her

\(^{10}\) In order to maintain sufficient sample size, we assume that the R&D and the advertising values are zero for those firms that did not report these values.
board membership. We evaluate empirically whether the board independence effect exists under this broader case. We reclassify our focal scenario to include 46 succession events where the predecessor CEO stayed on board but was not the board chair, thereby expanding the number of observations from 170 to 216. We find that the board independence effect still exists (coefficient = 1.508, p-value 0.06) but it is slightly weaker compared to the main result. It appears that the role of the independent directors is more important when the predecessor CEO is the board chair and not merely a board member.

Third, because the early and the late periods in our sample overlap with the dot-com bubble burst and the financial crisis, respectively, this may raise concern about the abnormal circumstances the firms may face. In our main analysis, we use industry-adjusted variables and include year fixed-effects. To further alleviate the concern, we re-run our analysis with a smaller set of sample that excludes observations from 2000 and 2008. Our result on board independence based on this reduced sample remains robust.

Finally, we explore further some of our interesting findings. We investigate the significance of relative age by decomposing the variable into successor age and predecessor age. We find a positive and significant coefficient estimate on the successor age, but an insignificant coefficient on the predecessor age. This suggests that older outside successors are more able to overcome the impedance from the predecessor CEO board chair to implement strategic change. We also disaggregate strategic change into its four component indicators and find different effects of board independence – board independence has greater effect on changes in SG&A intensity and plant and equipment newness than on financial leverage and inventory level. While we do not have sufficient data that allows us to pursue finer details, this finding nevertheless
substantiates recent calls on unpacking the aggregate measure of strategic change as an avenue for future research (Zhang and Rajagopalan, 2010).

**DISCUSSION AND CONCLUSION**

This study highlights the role played by a firm’s board of directors in resolving conflicts between the firm’s CEO and its board chair. We identify this conflict by focusing on a particular succession scenario—when the new CEO is an outsider and the predecessor CEO is board chair. Our findings, which are robust to a number of alternative specifications, suggest that independent directors influence the resolution of this conflict. Specifically, we show that higher board independence is associated with higher strategic change – presumably in line with the wishes of the new outsider CEO – in this type of CEO turnover context, but not in other contexts. We suggest that this finding provides evidence of a specific role played by boards of directors, and independent directors in particular.

This study provides multiple important insights for the broad literature on corporate governance. First, our study provides high-level insight into the factors influencing the resolution of conflicts between powerful actors within the firm. Given the recent interest in questions of CEO duality (joint CEO-board chair status) (e.g. Iyengar and Zampelli, 2009; Krause and Semadeni, 2013) and concerns drawing from agency theory normatively arguing that non-duality helps the firm avoid CEO entrenchment by empowering a potentially contrary voice (Fama and Jensen, 1983; Heramlin and Weisbach, 1998), such conflicts between CEOs and board chairs are likely to be frequent and important. While our study provides some large-scale insight, we neither observe the underlying conversations, communications, and discussions that are related to the strategic conflict, nor do we observe the underlying mechanism of its resolution. Future work should identify and elaborate on the specific processes by which such conflicts are resolved.
and the role played by the board of directors. Future work could also focus on other types of strategic conflict between powerful actors within the firm.

Second, we connect with the literature on top management teams and organizational adaptation (Quigley and Hambrick, 2012; Finkelstein and Hambrick, 1990; Wiersema and Bantel, 1992) by identifying and disentangling theoretically conflicting governance affects on organizational change. We focus on independent directors as a potential means of identifying the net effect of conflicting forces, and further research on top managers could explore the role of independence and other factors in identifying the contingent outcomes of attempts at organizational adaptation.

Third, our study responds to calls to investigate the contingent effects of board independence on organizational outcomes (Daily, et al., 2003). Our results show that board independence frequently has no effect on strategic change, but only has an effect when there is likely to be conflict between the CEO and board chair. Thus, the ability of the board to have a significant impact on choosing strategic direction may be limited to forcing CEO turnover, choosing successors, and settling significant internal disputes. This may provide a roadmap for future research to explore the role of board independence.

Overall, we find support for our theory that independent directors play a role in driving strategic change only when there is likely conflict between the CEO and the board chair. These findings underscore the contingent role of independent directors, and contribute to research on corporate governance and organizational strategic change.
REFERENCES


Table 1. Descriptive statistics

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<td>8 Slack</td>
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<td>0.03</td>
<td>0.07</td>
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<td>-0.16</td>
<td>0.07</td>
<td>0.04</td>
<td>0.02</td>
<td>0.07</td>
<td>0.21</td>
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<td>0.10</td>
<td>0.18</td>
<td>-0.08</td>
<td>0.19</td>
<td>0.59</td>
<td>0.33</td>
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<td>-0.23</td>
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<td>-0.19</td>
<td>-0.17</td>
<td>-0.32</td>
<td>-0.03</td>
<td>0.02</td>
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<td>0.05</td>
<td>0.01</td>
<td>0.11</td>
<td>0.02</td>
<td>0.02</td>
<td>0.14</td>
<td>0.12</td>
<td>0.11</td>
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<td>13 Time on board</td>
<td>-0.10</td>
<td>-0.04</td>
<td>0.22</td>
<td>-0.11</td>
<td>0.14</td>
<td>0.14</td>
<td>0.48</td>
<td>0.05</td>
<td>0.05</td>
<td>-0.84</td>
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<td>14 Predecessor tenure</td>
<td>-0.01</td>
<td>-0.04</td>
<td>0.08</td>
<td>-0.05</td>
<td>0.08</td>
<td>0.04</td>
<td>0.17</td>
<td>0.06</td>
<td>0.03</td>
<td>-0.18</td>
<td>-0.05</td>
<td>0.35</td>
<td>1.00</td>
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<td>15 Relative age</td>
<td>0.07</td>
<td>-0.01</td>
<td>-0.19</td>
<td>0.02</td>
<td>-0.09</td>
<td>-0.12</td>
<td>-0.23</td>
<td>0.05</td>
<td>-0.02</td>
<td>-0.15</td>
<td>0.13</td>
<td>0.13</td>
<td>-0.28</td>
<td>-0.17</td>
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</table>

Means (standard deviations)

Whole sample: 0.52 (0.42) 0.67 (0.14) 0.47 (0.50) 0.60 (0.49) -0.04 (0.25) 0.73 (2.06) 0.26 (1.02) 0.75 (0.33) 8.61 (2.26) 8.61 (1.19) 7.55 (0.58) 7.55 (4.20) 6.30 (5.75) 5.63 (1.70)

Sub-samples:

(a) Focal scenario:

n=170 0.52 (0.13) 0.62 (0.22) 1.00 (1.93) 1.00 (0.85) -0.03 (0.23) 0.72 (0.42) 0.30 (1.90) 0.78 (0.14) 8.84 (0.54) 8.84 (4.05) 1.89 (6.11) 8.15 (0.85) 6.03 (0.16)

(b) Other scenarios:

n=564 0.52 (0.15) 0.68 (0.46) 0.31 (0.50) 0.48 (0.25) -0.04 (2.10) 0.73 (1.06) 0.24 (0.35) 0.75 (0.44) 8.54 (2.36) 8.54 (0.20) 1.89 (0.60) 7.38 (4.23) 5.50 (5.64) 0.09 (1.70)

\( t \)-statistics -0.03 5.01** - - -0.83 0.03 -0.60 2.38** -0.81 -1.65* -0.22 -0.05 -2.15* -0.05 3.17**

\( \dagger \) The focal scenario is where the predecessor CEO is the post-succession board chair and the successor CEO is an outsider. Two-tailed \( t \)-test of means between the focal and the other scenarios, unequal variance: \( *p < 0.10 \), \( **p < 0.05 \), \( ***p < 0.01 \).
### Table 2. Board independence effect on strategic change

<table>
<thead>
<tr>
<th>Succession scenarios:</th>
<th>Predecessor CEO = board chair</th>
<th>Successor CEO = outsider</th>
<th>Other CEO Succession Scenarios</th>
</tr>
</thead>
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<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
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<tr>
<td>Board independence</td>
<td>OLS</td>
<td>OLS</td>
<td>IV</td>
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<tr>
<td></td>
<td>0.139</td>
<td>-0.139</td>
<td>1.685*</td>
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<tr>
<td></td>
<td>(0.316)</td>
<td>(0.730)</td>
<td>(0.139)</td>
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<tr>
<td>Firm performance</td>
<td>-0.135</td>
<td>-0.139</td>
<td>-0.187</td>
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<tr>
<td></td>
<td>(0.264)</td>
<td>(0.265)</td>
<td>(0.235)</td>
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<tr>
<td>Firm size</td>
<td>-0.052*</td>
<td>-0.053*</td>
<td>-0.067**</td>
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<tr>
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<td>(0.024)</td>
<td>(0.024)</td>
<td>(0.023)</td>
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<tr>
<td>Firm age</td>
<td>-0.010</td>
<td>-0.017</td>
<td>-0.090</td>
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<td></td>
<td>(0.070)</td>
<td>(0.073)</td>
<td>(0.080)</td>
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<tr>
<td>Slack</td>
<td>0.263</td>
<td>0.256</td>
<td>0.174</td>
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<tr>
<td></td>
<td>(0.201)</td>
<td>(0.201)</td>
<td>(0.197)</td>
</tr>
<tr>
<td>Diversified (dummy)</td>
<td>-0.217+</td>
<td>-0.212+</td>
<td>-0.159</td>
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<tr>
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<td>(0.122)</td>
<td>(0.123)</td>
<td>(0.121)</td>
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<tr>
<td>Board size</td>
<td>0.017</td>
<td>0.016</td>
<td>0.004</td>
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<td>(0.021)</td>
<td>(0.021)</td>
<td>(0.019)</td>
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<td>Board turnover</td>
<td>-0.194</td>
<td>-0.210</td>
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<td>(0.315)</td>
<td>(0.315)</td>
<td>(0.299)</td>
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<td>Qualifications</td>
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<td>0.085</td>
<td>0.124</td>
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<td></td>
<td>(0.082)</td>
<td>(0.083)</td>
<td>(0.076)</td>
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<tr>
<td>Time on board</td>
<td>-0.007</td>
<td>-0.006</td>
<td>0.002</td>
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<tr>
<td></td>
<td>(0.012)</td>
<td>(0.013)</td>
<td>(0.013)</td>
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<td>Predecessor tenure</td>
<td>-0.009</td>
<td>-0.009</td>
<td>-0.008</td>
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<td>(0.006)</td>
<td>(0.006)</td>
<td>(0.005)</td>
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<tr>
<td>Relative age</td>
<td>0.611</td>
<td>0.614</td>
<td>0.653+</td>
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<tr>
<td></td>
<td>(0.454)</td>
<td>(0.457)</td>
<td>(0.382)</td>
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<td>Industry dummies</td>
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<td>Included</td>
<td>Included</td>
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<td>Year dummies</td>
<td>Included</td>
<td>Included</td>
<td>Included</td>
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<tr>
<td>Constant</td>
<td>0.916</td>
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<td>(0.993)</td>
<td>(0.716)</td>
<td>(0.705)</td>
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<tr>
<td>R-squared</td>
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<td>0.450</td>
<td>0.346</td>
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<td>Observations</td>
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</table>

Dependent variable: strategic change. Robust standard errors are reported in parentheses.

+ $p < 0.10$, * $p < 0.05$, ** $p < 0.01$. 

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