CEO OUTSIDE DIRECTORSHIPS AND FIRM PERFORMANCE: A RECONCILIATION OF AGENCY AND EMBEDDEDNESS VIEWS

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ABSTRACT

This study addresses the debate surrounding CEO outside board service and its contribution to firm performance. Agency scholars contend CEO outside directorships constitute a form of managerial opportunism that potentially distracts from internal responsibilities, while embeddedness scholars argue outside directorship ties afford access to information and resources of important strategic utility. In an effort aimed at reconciliation, we propose and test a mid-range, contingency-based model receiving strong support in analysis of more than 400 *Fortune* firms. Results show CEO outside directorships are positively related to the long-term performance of firms facing competitive constraints on growth. They also benefit strategically-focused firms more than highly diversified ones. Implications for research and practice are discussed.

Outside directors are considered a hallmark of effective corporate governance. Guidelines of the Securities and Exchange Commission, as well as major U.S. exchanges have long advocated – and Sarbanes-Oxley now mandates -- that outside, independent directors hold a majority position on the boards of public firms. Among candidates, outside, non-retired CEOs are the most preferred for reason of their immediate, firsthand knowledge of strategic leadership (e.g., Lorsch & MacIver, 1989; Neff & Heidrick, 2006). Outside CEOs are believed to bring an appreciation of the contemporary challenges facing firms, as well as experience in managing relations with government, capital markets, etc. (Lorsch, 1995; Lorsch & MacIver, 1989). Not surprisingly, the demand for their board service is unmatched (Spencer Stuart, 2009).

While outside CEOs are highly desirable candidates from the perspective of those extending board invitations, there is less consensus regarding value to source firms – that is, the firm that employs the CEO in a formal, managerial capacity. In fact, CEO service on outside boards is strongly debated in practitioner (e.g., Lublin, 2001; The Economist, 2001), as well as academic circles. Agency scholars, for example, observe that while executives accrue financial, status, and other personal perquisites (e.g., Useem, 1979; Yermack, 2004), little utility appears remitted the source firm (Fama & Jensen, 1983; Zajac, 1988). Indeed, executive outside board ties have been linked to managerial entrenchment (Wade, O'Reilly & Chadratat, 1990; Davis, 1991; Berger, Ofek & Yermack, 1997), possibly explaining why announcements of CEO appointment to outside boards are often met with a decline in short-term shareholder wealth (Rosenstein & Wyatt, 1994). For these reasons, some contend executive outside board service constitutes little more than a form of managerial opportunism (Conyon & Read, 2006).

In contrast, a second volume of research suggests that the social embeddedness associated with outside directorship ties is quite valuable to organizations. Research in this stream points to critical information and learning benefits (e.g., Haunschild, 1993; Westphal, Seidel, & Stewart, 2001), as well as relational assets (e.g., trust, access) that not only enhance the firm's ability to procure critical resources (e.g., Pfeffer & Salancik, 1978; D'Aveni, 1990), but play an important role in the successful implementation of chosen strategies (D'Aveni & Kesner, 1993). Because these benefits are socially complex and difficult to replicate, several scholars have argued executives' external ties constitute an important competitive resource (Podolny, 1993; Pennings & Lee, 1999).

Despite a vast literature on directorships (Mizruchi, 1996), the debate over long-term performance implications of CEO outside directorships has evaded empirical resolution. One reason lies in the tendency to examine directorships in aggregate. That is, CEOs' external board ties ("sent ties") are frequently combined with those of outside directors serving on the source firm's board ("received ties") (e.g., Davis, 1991; Westphal et al., 2001; Beckman, Haunschild, & Philips, 2004), resulting in a confounding of two distinct sets of relations (Richardson, 1987). Another impediment lies in restricted definition. Richardson (1987) uncovered no systematic link between CEO board ties to financial entities and subsequent source firm performance; however, his inquiry omitted consideration of ties to non-financial concerns. Studies examining patterns of CEO directorship activity show that ties to non-financial firms are far more prevalent (e.g., Useem, 1984; Davis, Yoo, & Baker, 2003), and thus the broader complement of CEO outside directorships merits examination.

A study of CEO outside directorships disentangled from other directorate ties is indeed important for several reasons. As noted, active CEOs are the most sought-after director candidates (Pellet, 1998; Fich, 2005). They also hold a position of unique power and discretion within the source firm (Hambrick & Finkelstein, 1987; Finkelstein, 1992). In short, CEOs not only possess greater opportunity to engage in outside directorships, they also enjoy the political influence needed to craft those relations with an agenda alternately aimed at self-interest or the long-term competitive objectives of the firm. Not surprisingly, it is the outside directorships of CEOs proper that are mired in theoretical, as well as practical controversy.

To resolve the current debate over whether/not CEO outside directorships are valuable to source firms, we explore both the agency and embeddedness views. We subsequently propose a mid-range model aimed at reconciling these perspectives. Specifically, our model acknowledges both the potential embeddedness benefits and agency risks of CEO service on outside boards, and introduces a contingency perspective grounded in the job demands literature. The latter argues that across firms, CEOs face a set of heterogeneous challenges whose variation can be traced to differences in strategic and environmental contingencies (Kotter, 1982; Hambrick, Finkelstein & Mooney, 2005). Building on this logic, we argue the implications to firms of CEO outside directorships will similarly vary: When CEO outside board service and its benefits align with the strategic and environmental imperatives facing the firm and its chief executive, benefits will prove especially valuable. At the same time, we expect organizational risks will be mitigated for reason of a unique alignment of agent/owner interest. Specifically, our model proposes that when the firm experiences acute challenges, it is in both the firm's and CEO's personal interest to deploy the organizationally-relevant gains from outside board service. This thesis is tested via structural equation models examining long-term, source firm performance.

Contributions of our study are several-fold. The plainest is resolution of the long-standing, contentious debate over CEO outside directorships' value to source firms. Our findings reveal greater support for a contingency-based, mid-range view than either the embeddedness or agency perspectives in isolation. We uncover systematic empirical evidence that CEO outside directorships are beneficial to long-term source firm performance when firms face a more heterogeneous set of competitors or diminished growth opportunities, and they are also far more advantageous in contexts of lower diversification.

Inroads relevant to each of the original competing theories are also uncovered. Firm owners often suffer a deficit of knowledge regarding executive day-to-day activity, specifically the degree to which executives are actively pursuing firm interests (e.g., Jensen & Meckling, 1976; Fama, 1980). Contrary to some concerns (e.g., Conyon & Read, 2006), we fail to uncover evidence that CEO service on outside boards poses a significant detriment to firm performance. In fact, in many contexts, long term profitability is enhanced. Accordingly, our results reduce some of the information asymmetry surrounding CEO outside board service, and suggest that with regard to this activity, flexible board oversight is needed (Huse, 2005). In particular, our results suggest that the increasingly common prohibition of CEO service on outside boards (Neff & Heidrick, 2006) is suboptimal in many contexts.

Our research also informs the embeddedness literature. Our findings reveal all firms do not benefit equally from CEO embeddedness in the directorate network. Instead, performance effects are nuanced, and context must be primed for benefits to accrue. Thus, much as CEO background and experience are best tailored to the firm's strategic imperative (cf. Finkelstein, Hambrick, & Cannella, 2009), so too are the CEO's external ties.

Finally, our work extends research on strategic leadership by shedding new light on the broader, non-demographic effect of top executives on organizational profiles. Scholars have issued a call for greater examination of executive activities (e.g., Carpenter, Geletkanycz, & Sanders, 2004). Our findings underscore the merits of this charge and suggest additional research examining activities and roles beyond strategic choice is warranted.

THEORETICAL BACKGROUND

The Embeddedness View

Organizations exist in an economic environment cohabited by other firms. As open systems, they derive essential tangible (e.g., raw materials, revenues) and intangible resources (e.g., legitimacy, support) from entities outside their own boundaries (e.g., Aldrich, 1979; Pfeffer & Salancik, 1978). They also leverage their internal competitive strengths through coordination with other firms (e.g., Porter, 1980; Uzzi, 1996). Thus, the external environment and organizations comprising it are not only unavoidable, they play a prominent role in competitive outcomes (Pfeffer & Salancik, 1978; Baum & Dutton, 1996).

Research suggests much of organizational economic activity is guided by a network of interpersonal relations (Granovetter, 1985), with board networks among the most influential (Mizruchi, 1996). Often conceptualized as interorganizational communication mechanisms (Useem, 1984; Mizruchi, 1996), directorship ties serve as conduits for several types of critical information, including insight into environmental shifts (Useem, 1984), strategic and structural alternatives (e.g., Haunschild, 1993; Palmer, Jennings, & Zhou, 1993), as well as decision processes (Westphal et al., 2001).

Directorships also provide an arena for firsthand learning by offering insight into the policies and practices of other organizations (e.g., Haunschild, 1993; Beckman & Haunschild, 2002). Learning is, in fact, one of the chief reasons executives accept invitations to serve on outside boards (e.g., Lorsch & MacIver, 1989; Conger, Lawler, & Feingold, 2001). In their service as outside directors, executives directly observe the development of policies within the organizations they govern. As an added benefit, they learn the consequences of new strategic alternatives and approaches without exposing their own (source) firm to the direct costs of experimentation (Burt, 1987; Geletkanycz & Hambrick, 1997).

With directorship ties, information is not only imported into the source firm, it is also transmitted to outside, unaffiliated entities (Podolny, 2001). Third parties often lack firsthand knowledge of the firm and its management, and must turn to visible cues for indicators of reliability (DiMaggio & Powell, 1983). Interorganizational ties signal endorsement; they reflect the fact that other organizations accept the firm (and its management) as a trustworthy affiliate (e.g., Baum & Oliver, 1991; Podolny, 1994). In the case of board ties, firms which extend board invitations to the CEO are signaling they deem the executive an expert capable of providing valuable counsel and guidance (Lorsch & MacIver, 1989; Conger et al., 2001) – an acknowledgement that reflects favorably onto the CEO's source firm (e.g., Burt, 1980; 1992).

In fact, to the extent that executives' directorship ties link the organization to firms of similar or superior standing, important status gains accrue (D'Aveni, 1990; Podolny, 1993; 1994), and their implications for competitive success are significant. Affiliation- or tie-related status not only helps firms attract a wider set of potential exchange partners (Podolny & Castellucci, 1999), and thus achieve faster organizational growth (Podolny, Stuart, & Hannan, 1996), it lowers transaction costs (Podolny, 1993). For these reasons, Podolny & Castellucci (1999: page 433) define status as "a productive asset" conducive to firm success.

In sum, the embeddedness perspective suggests that executive outside board ties are advantageous to organizations. Executive directorship linkages not only channel direct, strategically-relevant information to the source firm, they also proffer benefits in the form of learning and status. In doing so, directorship ties augment the firm's strategic knowledge stock and enhance the organization's discretion to pursue chosen market opportunities. Consequently, the embeddedness perspective suggests:

Hypothesis 1. CEO outside directorships will be positively related to long-term firm performance.

The Agency View

Agency theory addresses the separation of firm ownership and management control – in particular, the divergence in the two parties’ interests and goals (Berle & Means, 1932; Fama, 1980). Whereas owners would prefer managers dedicate their efforts to maximizing returns to the firm and its owners, agents (managers) may in fact subordinate organizational interests in favor of personal objectives (Jensen & Meckling, 1976; Fama, 1980). Thus, owners are forced to incur monitoring costs – often significant for reason of information asymmetry. Plainly stated, the work of top managers is characterized by complexity and indeterminacy (Eisenhardt, 1989; Tosi & Gomez-Mejia, 1994), and continuous observation is impossible (Holmstrom, 1979). Thus, while agents are cognizant of their individual activities, owners experience difficulty accurately assessing not only the engagement of top executives, but also the degree to which executive efforts and aims are aligned with the firm’s interests (Fama, 1980).

Among executive activities of concern to owners is service on outside boards (e.g., Rosenstein & Wyatt, 1994; Conyon & Read, 2006). By definition, outside directorships redirect at least temporarily executive attention to the interests of an outside organization (Ward, 1997). In fact, time demands constitute a leading rationale for the decline of board invitations and serve as the cornerstone argument for the growing trend toward limitation, if not outright prohibition, of executive outside board service (e.g., Neff, 1998; Spencer Stuart, 2009).

Notably, markets tend to react poorly to the announcement of a CEO’s appointment to outside boards (Perry & Peyer, 2005; Rosenstein & Wyatt, 1994; Fich, 2005). This negative reaction is believed to reflect concerns over distraction. It may be further fueled by evidence that patterns of executive service on outside boards do not closely align with the operational needs of the firm (Mace, 1986; Davis, 1996; Davis et al., 2003). Specifically, studies examining resource dependency explanations of directorships have found mixed results, at best (Pfeffer, 1987; Westphal, Boivie, & Chng, 2006). Investigation reveals that directorship ties to supplier or buyer industries represent a small fraction (4%) of all interlocks (Davis, 1996), and when broken, these directorships are typically not reconstituted (e.g. Palmer, 1983; Palmer, Friedland, & Singh, 1986). Together, these findings have led some researchers to conclude that directorship ties are less a means of managing organizational dependencies than a means of advancing executives' personal interests (e.g., Zajac, 1988; Davis, 1996).

For their part, executives accrue numerous rewards from outside board activity (Mizruchi, 1996). They not only receive financial compensation in the form of board pay and pension, but also non-monetary perquisites in the form of elevated prestige and standing in social circles (Useem, 1984). As monitors of and advisors to (receiving firm) management, CEO outside directors are recognized as decision experts (Jensen & Meckling, 1976; Fama, 1980; Kaplan & Reishus, 1990). Accordingly, their attractiveness in both the broader managerial and directorate markets rises (Useem & Karabel, 1986; Davis, 1993; Zajac & Westphal, 1996).

This elevation in professional standing bears important source firm implications, including the ability for CEOs with outside directorships to command higher pay (Geletkanycz, Boyd, & Finkelstein, 2001) and accrue greater intraorganizational power (Finkelstein, 1992). The latter is especially worrisome for reason of managerial entrenchment. Top managers' outside board ties have been directly linked to the adoption of golden parachutes (Wade et al., 1990) and poison pills (Davis, 1991) – two initiatives that protect managerial interests at the expense of owners (Walking & Long, 1984; McWilliams & Sen, 1997). Not surprisingly, Davis (1991: 583) concluded that in the market for corporate control, "the interlock network provides a social context favoring managerial dominance."

In sum, agency-related literature suggests that while executives' personal aims and interests are well-served by participation in directorship networks, the same is not true for the source firm. Organizations may suffer negative consequences for reason that CEO time and attention are diverted to the monitoring and control of other organizations, thus distracting the CEO from critical source firm obligations. Further, firms may suffer for reason of the cumulative perquisites accrued by executives in outside board activity – in particular, the accumulation of power and prestige that serve the advancement of CEO personal interests at the expense of the source firm and its owners. Therefore, agency concerns suggest:

Hypothesis 2. CEO outside directorships will be negatively related to long-term firm performance.

A Mid-Range View

As described above, the embeddedness perspective offers evidence of important firm-level benefits (H1), while the agency view identifies critical risks associated with CEO outside directorships (H2). Each is supported by robust empirical findings, though implications for source firm profitability remain unclear (Pfeffer, 2003). Despite the fact each stream is individually compelling, we suggest a more meaningful account may be achieved through integration. Thus, we propose a mid-range perspective that conceptualizes CEO outside directorships as simultaneously engendering embeddedness and agency qualities – that is, source firm benefits and risks. The logic is plain: To accumulate gains such as environmental scan and new strategic insights, firms must afford (risk) CEOs the opportunity to discharge responsibilities attendant to outside board service. In short, they are two sides of the same coin.

Our model further proposes that while the benefits and risks of CEO outside directorships are likely to coexist, the inherent trade-off is not expected to have a monolithic effect on performance. Rather, contextual factors are likely to intervene. Such contingency view is consistent with strategic leadership research (e.g., Gupta, 1984; Hambrick & Mason, 1984). Much as an alignment between executive background and the strategic imperative facing the firm affects performance (cf. Finkelstein et al., 2009), an alignment between CEO outside directorships and firm imperatives is likely to prove similarly consequential.

The literature on executive job demands affords a compelling basis for this argument. Kotter's (1982) research on CEOs and other general managers found that despite commonality in title, CEOs face a varying array of job demands. In other words, across firms, the particular roles and responsibilities assumed by chief executives are often different, with strategic context playing a prominent part in cross-firm variation. More recently, Hambrick et al. (2005) reintroduced this concept and suggested additional contingencies. Both studies agree, however, that CEO job demands – e.g., decision challenges, uncertainty – are far from homogeneous across firms, and that the fit between specific job demands and managerial attributes is key to organizational effectiveness (Kotter, 1982; Hambrick et al., 2005).

Our mid-range model builds directly on this logic. Namely, we expect that when strategic and environmental contingencies create a context in which the CEO's immediate job demands are well-served by outside directorships – i.e., embeddedness benefits of environmental scan, learning, etc. – long-term performance will be enhanced by CEO outside board service. We further expect that job demands are germane to the firm-level risks associated with this activity. In particular, they may help to mitigate negative organizational effects. Scholars have observed that the personal gains sought by executives – especially standing in managerial and directorate markets (Fama, 1980) – not only accrue from service on outside boards (Booth and Deli, 1996), they are also shaped by source firm performance (Wiesenfeld, Wurthmann, &

Hambrick, 2008). When firm performance is positive, executive status rises; when performance falters, executives face "devaluation" in managerial and directorship markets (Yermack, 2004). Extending these findings, we argue that when the firm's immediate context and corresponding CEO job demands are relatively benign, CEOs may not attend to tapping the organizational benefits of outside directorships. However, when the context becomes more challenging, and the CEO's reputation is placed at risk, we expect executives will not only be deterred from exploiting outside directorships at the expense of source firm performance, they will actively seek to deploy the organizationally-relevant gains as doing so serves not only the firm's, but their own personal self-interest.

To summarize then, our model proposes that CEO outside directorships encompass both benefits and risks that, in general, co-exist in balance. There may be contexts, however, in which performance effects are accentuated. When CEOs face strategic and environmental contingencies acutely demanding the information, learning, and other benefits afforded by external ties, outside board service will prove especially conducive to firm performance (e.g., Eisenhardt, 1989b). We further expect these same contextual demands will simultaneously constrain relative risks. Namely, when faced with the threat of elevated strategic and environmental challenges, CEOs will harness the gains from outside board service for use within the source firm if only to demonstrate effective leadership. We turn now to prominent job demand contexts identified in Kotter (1982) and Hambrick et al. (2005):

Industry Growth. Growth directly affects the level of resources available to firms, as well as the degree of competitive uncertainty resident within the industry (Thompson, 1967; Pfeffer & Salancik, 1978). In low growth settings, few new customers enter the marketplace rendering it difficult to achieve long-term objectives by simply tapping a fresh supply of new demand (Scherer, 1980). Instead, firms must turn to pursuing customers already served by competitors – an action that results in elevated rivalry (Porter, 1980). Indeed, low growth contexts often feature aggressive, head-to-head competition (Miller & Chen, 1996). Scholars note that to succeed in low growth settings, a broader, more diverse strategic repertoire is demanded, together with new skill in execution (Miller, 1991; Miller & Chen, 1994).

CEO outside directorships serve as vital channels for tapping information and resources critical in low growth settings. Outside directorships not only facilitate a broad environmental scan (Useem, 1984), they offer insight into new and diverse strategic alternatives that can be deployed to counter an increasing number of competitive threats. Further, executive external ties assist in securing the support needed from key exchange partners (e.g., D'Aveni, 1990; Uzzi, 1996). In doing so, they improve the firm's ability to better fend off competitor encroachment.

In sum, the demands imposed by low growth contexts (Hambrick et al., 2005) are expected to be well-served by CEO outside directorships. Through their service on outside boards, CEOs are accorded the opportunity to expand their strategic repertoire and procure the support needed to sustain firm operations. These potential gains are not only well-suited to the firm-level challenges stemming from greater resource and competitive uncertainty, they represent critical endeavors on the part of executive leadership. Consequently, we expect:

> *Hypothesis 3. Industry growth will moderate the relationship between CEO outside directorships and long-term firm performance such that effects will be more positive in low growth contexts.*

Industry Concentration. Organizations face competitive challenge not only from market stagnation, but also industry concentration. Concentration addresses heterogeneity in the size and profile of industry incumbents (e.g., Porter, 1980; Scherer, 1980). The composite mix of resident players alternately creates a context in which competitive threat is relatively balanced and predictable, or one in which rivalry is contentious and uncertain.

At higher levels of concentration – approaching oligopoly – industries are populated by a smaller number of competitors, each controlling a substantial portion of overall market share. Increased size simplifies the task of identifying and monitoring incumbents' maneuvers (Scherer, 1980). What's more, in higher concentration settings, competition tends to be more stable and predictable as the large-scale and relative balance of firms discourages competitive disruption (Miller and Chen, 1996. This contrasts sharply with conditions found in low concentration industries. The latter contexts – approaching fragmented markets – contain a heterogeneous set of competitors (Palmer & Wiseman, 1999). The playing field is populated by a greater quantity of smaller, less visible rivals pursuing a wide range of tactics, thus rendering both the tasks of competitive monitoring and response more difficult. Not surprisingly, uncertainty is significantly higher in low concentration contexts (Dess & Beard, 1984; Boyd, 1995).

The greater heterogeneity among rivals and competitive instability associated with low concentration contexts render strategic management a far more difficult task (Hambrick et al., 2005). Under these conditions, we expect CEO outside directorships will prove particularly apt. One of the chief rationales for serving on outside boards is the opportunity for firsthand learning (Lorsch & MacIver, 1989). Through their service on outside boards, CEOs acquire direct insight into diverse organizational forms and initiatives – learning that would otherwise require costly trial and error within the source firm (Burt, 1992; Geletkanycz & Hambrick, 1997). This augmentation of the CEO's knowledge stock should not only render the CEO more capable of understanding the actions of a heterogeneous set of competitors, but enhance his/her ability to formulate and deploy an effective response. Accordingly, we predict that:

Hypothesis 4. Industry concentration will moderate the relationship between CEO outside directorships and long-term firm performance such that effects will be more *positive in contexts of low concentration.*

Diversification. A firm's diversification profile shapes not only the number of critical contingencies the firm and its leadership must negotiate (Thompson, 1967), but also the core responsibilities of the CEO (Kotter, 1982). Each industry environment is characterized by a particular set of suppliers, customers, competitors, and other key entities (Rumelt, 1974; Porter, 1980). As the business portfolio expands, the task of monitoring and addressing various industry forces becomes an increasing challenge. Not only do absolute numbers of suppliers, customers, competitors, etc. rise, their inherent variation introduces considerable complexity (Chandler, 1962) until expansion "eventually overcomes the capacity of the office of the chief executive to provide strategic planning" (Williamson,1975: 135). This tendency not only helps to explain the limits to vertical integration, but also a shift in CEO roles. In firms with a more diversified portfolio, CEOs assume responsibilities emphasizing coordination over formulation of competitive strategy (Williamson, 1975; Kotter, 1982). In fact, many scholars note that as the firm increasingly diversifies, the CEO's focus shifts, becoming more financial in orientation -- emphasizing allocation of capital and monitoring of performance over active management of individual businesses (Finkelstein, 1992; Michel & Hambrick, 1992; Hoskisson, Hill, & Kim, 1993). This stands in contrast to less diversified settings, wherein CEOs directly contend with buyer, supplier, rivals, and other competitive forces – factors that shape the profit performance of the firm (Rumelt, 1974; Porter, 1980; Kotter, 1982).

We expect outside directorships will prove more beneficial to performance among less diversified firms as the potential gains from outside board service more closely align with the CEO's immediate responsibilities. As noted earlier, outside directorships accord firsthand learning opportunities and environmental scan essential to effective formulation of competitive strategy. CEOs of less diversified firms not only experience a greater (job demand-driven) need for this type of information, they are in a distinctly superior position to capitalize upon it. Unlike their counterparts in more diversified firms, they would not need to channel competitive information through to other managers for exploitation – a requirement that not only adds delays, but introduces opportunity for information distortion (O'Reilly, 1983) and knowledge loss (Huber, 1982; Winter, 1987). Accordingly, we expect CEOs of less diversified firms will keenly appreciate the competitive insights afforded by outside directorships and enjoy the capacity to efficiently deploy them within the source firm. Consequently, we posit that:

> *Hypothesis 5. Diversification will moderate the relationship between CEO outside directorships and long-term firm performance such that effects will be more positive in contexts of less diversification.*

METHODS

Our sample is comprised of 460 firms listed in the 1987 *Fortune* 1000. With the exception of lagged or multi-year variables, all data represent values for the year 1987. Several factors guided this selection: First, the population has been used in prior studies examining directorship ties from agency and embeddedness perspectives (e.g., Davis, 1991; Haunschild, 1993; Beckman et al., 2004), making it well-suited to our mid-range model. Second, the study period reflects an era that preceded the widespread curbing of executive outside directorship activity. Thus, the potential for bias owing to prohibitions on outside directorships is reduced.

The first reporting of directorship limits we were able to uncover was a 1991 *Business Week* article that described them as a "treatment to combat CEO Disease" -- defined as excessive egotism and/or perquisite consumption which can "breed corporate disaster" (Byrne & Symonds, 1991). In ensuing years, an increased media spotlight was cast on CEO directorship activity and in 1996, the National Association of Corporate Directors formally advocated the imposition of curbs (NACD, 1996). The Business Roundtable and Council of Institutional Investors promptly followed suit (e.g., Pellet, 1998). Surveys reveal the quick, profound impact of these actions: Between 1995 and 2005, the percent of large, public firms imposing formal restrictions grew from 11% to 51% (Korn/Ferry, 1995; 2005). Not surprisingly, the average number of outside board seats held by CEOs declined precipitously (from 1.9 in 1990 to 0.7 directorships per CEO in 2009) (Booth & Deli, 1996; Spencer Stuart, 2009). These statistics not only demonstrate the broad impact of prohibitions, but also the aptness of our sample timeframe (i.e., limited bias associated with institutionalized curbs).

From the broad *Fortune* pool, all privately held firms, mutual associations, cooperatives, and U.S. subsidiaries of foreign firms were excluded, and 460 manufacturing and service firms randomly selected. Our sample firms represent a total of 21 two-digit SICs and 95 four-digit SICs. Of particular importance, no four-digit industry group accounts for more than five percent of the total sample, and no two-digit industry accounts for more than 11 percent. Hence, the sample is randomized to guard against potential industry effects and lends broad generalizability across major industrial and service sectors.

Measurement of Predictor Variables

CEO Outside Directorships. A single indicator is incapable of tapping the various latent qualities associated with personal ties (Rowley, Behrens, & Krackhardt, 2000). As a result, we employ a multiple indicator model of CEO directorships developed in previous research (Geletkanycz et al., 2001). Per the results of confirmatory factor analysis (discussed below), we examine a four indicator measure incorporating: (i.) *total number of outside directorships* held by each CEO, (ii.) *count of directorships with Fortune 1000 firms*, (iii.) *average net sales* of outside firms on whose board the CEO serves, and finally (iv.) *average profitability* of the outside firms on whose board the CEO serves for the year 1987. Relevant data were obtained from several sources, including Compustat, Disclosure, Trinet, company annual report and 10-K documents, *Moody's,* and *Ward's* directories.

As noted, the construct was originally developed and validated in prior research. It is particularly apt for our investigation because consistent with our theoretical model, it captures several latent dimensions of a CEO's directorship activity – both positive and negative. For example, number of directorships taps the sheer size of a CEO's network and breadth of environmental scan afforded (e.g., Useem, 1984); *Fortune* ranking captures information access (or network centrality); while performance and size of outside firm(s) reflect prestige and status (e.g., D'Aveni, 1990). From a risk standpoint, the number of directorships is directly related to potential distraction (e.g., McFadyen & Cannella, 2004; Kim & Cannella, 2008). Further, while ties to *Fortune* firms are highly desirable, they are among the most difficult (time-consuming) to attain (e.g., Davis, 1993; Palmer & Barber, 2001). Finally, prestige directorships are directly linked to executive standing in managerial and labor markets – what some consider the most coveted of agent (personal) perquisites (Fama, 1980; Yermack, 2004).

Industry Growth was measured over a five-year period (1982 – 1986) using a measure developed and validated by Dess and Beard (1984). Time was regressed against value of shipments, and the regression slope was divided by the mean value of shipments. Industries were identified by four-digit SIC codes, and data were drawn from the *U.S. Industrial Outlook*. For firms competing in multiple businesses, a weighted average was calculated reflecting the composition of each firm's unique business portfolio.

Industry Concentration was measured using the Herfindahl-Hirschman index (Herfindahl, 1950), which incorporates both the number of firms in the industry, as well as inequalities in their relative market shares. The index ranges from 0 (perfect competition) to 1 (monopoly), and is published by the Commerce Department at five-year intervals. We employed scores reported for calendar year 1987. For firms operating in multiple businesses, a weighted average was computed based on firms' business portfolios.

Diversification was measured using Palepu's (1985) *dt* entropy measure, found to possess superior reliability and validity over other diversification measures (Chatterjee & Blocher, 1992). Data for the calendar year 1987 were drawn from the Compustat Business Segment database and company 10-K reports.

Measurement of Outcome Variable

Firm Performance was measured using five-year averages (1987-1991 inclusive) of return on assets (ROA) and return on sales (ROS). Multi-year averages were employed in an effort to mitigate concerns over potential variability in single-year returns (Meyer & Gupta, 1994). The five-year timeframe is not only consistent with prior research examining long-term performance (e.g., Boyd, 1990; 1995; Simerly & Li, 2000), but recommended for study of directorships' broader effects (Richardson, 1987). We note that results of our hypothesis tests were unchanged when a shorter (two-year) time frame was employed. Data for this variable were drawn from Compustat files.

Measurement of Control Variables

Three control variables were included in our analyses: CEO human capital, prior firm performance, and firm size. Our selection of control variables was guided by a review of prior strategic leadership research, as well as studies examining performance as a dependent variable.

CEO Human Capital, or the accumulated store of knowledge executives bring to their leadership positions, is expected to be reflected in firm outcomes (Hambrick & Mason, 1984).

Education is particularly germane to a study involving executives' ability to cope with complex challenges. Studies show it is positively related with executive cognitive complexity (Wally & Baum, 1994) and strategic innovation (Wiersema & Bantel, 1992). Consistent with prior research (e.g., Finkelstein, 1992; Hitt & Tyler, 1991), an ordinal scale was employed. Specifically, the measure ranged from zero to seven, and captured sample CEOs' total number of degrees, as well as intervening gradations for attendance or participation in education programs (e.g., 0 reflected absence of a high school degree, 3 – college graduate, 5 – recipient of a graduate degree, and 7 – attainment of a Ph.D). Data for this variable were gathered from the *Dun & Bradstreet Reference Book of Corporate Management.*

Prior Performance was measured using a two-year composite (1985 and 1986) of return on assets. Prior performance is not only a common predictor of future performance, it is an indicator of the source firm's underlying resource stock (e.g., D'Aveni, 1990; Podolny & Phillips, 1996). Its inclusion also helps to mitigate concerns over model misspecification. To the extent unobserved factors are impacting future performance, their influence should at least be partly captured in prior performance. These data were drawn from Compustat files.

Firm Size was included for reason of potential effects on profitability (e.g., Aldrich, 1979; Porter, 1980), and measured using the value of total assets. Data for this variable were collected from Compustat files, again for the year 1987.

Statistical Methods

Hypotheses were tested using LISREL VII (Joreskog & Sorbom, 1988). Several indices of overall model fit were examined, including (1) the chi-square goodness-of-fit statistic, (2) the chi-square adjusted for degrees of freedom, (3) the goodness-of-fit index (GFI), (4) the root mean square residual (RMSR), and 5) coefficient of determination (CED) (Bollen, 1989).

Predicted moderator relationships were examined using sub-group analysis (Arnold, 1982; Venkatraman, 1989; Ping, 1996), and the significance of hypothesis tests was determined using t-ratios of respective gamma coefficients.

RESULTS

Summary statistics are reported in Table 1. On average, sample CEOs maintained one directorship link to another *Fortune* 1000 firm, and less than two outside board seats overall — a profile in keeping with that reported in prior research (e.g., Booth & Deli, 1996; Davis, 1996). One third of CEOs (152) maintained no outside directorships, while five percent (22) reported four or more. Thus, contrary to some fears (Lublin, 2001; Conyon & Read, 2006), we find little evidence that the typical CEO accumulated vast quantities of outside directorships.

Table 1 and Figure 1 about here

Figure 1 presents a path diagram of the relationships between our predictor, control, and outcome variables, as well as factor loadings for our CEO directorship measure. Prior to testing hypotheses, a confirmatory factor analysis of our measurement submodel for CEO directorships was conducted. Results suggested a reduced version of the seven-indicator model developed by Geletkanycz et al. (2001) was most apt. The reduced, four-indicator submodel reported an excellent fit to the data: Goodness-of-fit was 0.98 and the root mean square residual was 0.05. Further, all of the factor loadings were in the expected direction, and each was significant at .001 or greater. Overall, the single factor solution explained 93 percent of the variation in the four indicators. Our dependent variable was measured with two indicators, precluding a separate factor analysis on this component. However, in the full model, these indicators, as well, were highly significant and loaded in the expected direction.

Figure 1 also reports the overall results of our baseline model, which demonstrated a good fit to the data: Goodness-of-fit was 0.98 and the root mean square residual was 0.03. Chi-square was 41.85 (20 df). Prior performance had the greatest effect on subsequent performance with a path coefficient of 0.35 (t=8.1, p=.001). Firm size exhibited a smaller, negative effect on subsequent performance (γ = -.10, t= 2.2, p=.05), while CEO human capital showed a small, positive effect (γ = 0.09, t= 2.0, p=.05). Both the significance levels and magnitude of path coefficients for these control variables varied somewhat across the subgroup models.

One potential concern with our structural model is the possibility we have misspecified the causal ordering. While summary fit indices offer guidance in this regard, they do not directly address the issue of alternative configuration, a critical issue in structural modeling (Boyd, Bergh, & Ketchen, 2010). Perhaps the most pressing concern is that we have inverted our independent and dependent variables – in other words, CEO directorships, rather than shape firm profitability, might be the causal result of it. To explore this possibility, we created an inverse model with a path from prior performance to CEO directorships (thus, shifting CEO directorships from exogenous to endogenous), retaining all control variables. The path coefficient from prior performance to CEO directorships was 0.01, and non-significant. Additionally, when compared to our hypothesized (Figure 1) model, this alternative reported worse fit on summary indices. These results not only bolster our causal argument, they align with Davis's finding (1996: 159) of no difference between the performance of firms whose CEOs served on outside boards and those whose CEOs did not. Firm performance, in short, is not shown to be a significant predictor of CEO service on outside boards.

Table 2 about here

Our proposed model was grounded in the juxtaposition of two competing perspectives on the implications to firms of CEO outside board ties. These views must be explored before the relative merits of a mid-range model can be discerned. In accordance with the embeddedness view, Hypothesis 1 predicted a positive relationship with long-term performance, while Hypothesis 2, grounded in the agency view, predicted a negative one. As reported in Table 2, results of main effect tests show a positive, but non-significant relationship ($\gamma = 0.06$, $t=1.3$) between CEO outside directorships and long-term firm performance. We explored this finding further to see if differences might be observed in the performance profiles of firms whose CEOs served on outside boards versus the performance profiles of firms whose CEOs abstained. Supplemental t-tests indicated no significant difference between the two groups (t-value for future ROE: 1.2; t-value for future ROA: 1.1). In sum, CEO outside directorships do not appear to have a significant, direct effect on performance, whether positive or negative. Such finding may be surprising to individual proponents of embeddedness and agency perspectives. Yet it is consistent with a mid-range logic and the expectation that CEO directorships simultaneously convey advantages and disadvantages. We turn now to anticipated contingency effects:

Hypothesis 3 predicted CEO outside directorships will prove more positive in contexts of low industry growth. This hypothesis was supported. Specifically, the γ coefficient linking CEO directorships and firm performance was positive and significant ($\gamma = 0.24$; $t = 3.2$, $p=.01$) for firms operating in low growth environments, but not significant for those in the high growth context ($\gamma= 0.07$; $t = 1.0$, p=ns). Further, LISREL's multi-sample comparison reported a significantly better fit (chi-square = 9.23, $p=.01$) when the CEO directorship parameter was allowed to vary across subgroups versus being constrained (held equal) across subgroups. Together, these tests show that CEO outside directorships significantly enhance the performance of firms facing pressures of market stagnation.

Hypothesis 4 predicted the relationship between CEO external directorships and firm performance will be moderated by industry concentration. In particular, more positive effects were predicted in less concentrated industries wherein competitive heterogeneity and instability are greatest (Scherer, 1980; Palmer & Wiseman, 1999). The hypothesis was supported. CEO outside directorships pose greater benefit in contexts of low concentration ($\gamma = 0.20$; $t = 2.6$, $p=.05$) than of high concentration ($\gamma = 0.03$; $t = 0.7$, p=ns). Here as well, the multi-sample comparison reported a statistically better fit (chi-square = 6.5, $p=.05$) when the CEO directorship coefficient was allowed to differ across subgroups. Thus, results indicate firms competing in more fragmented markets accrue pronounced profit gains from CEO outside board activity.

Finally, Hypothesis 5 posited corporate strategy will factor in the utility of CEO outside directorships – namely, a more positive effect will be observed in contexts of less diversification. This hypothesis, too, was supported. Results show that the positive effects of CEO outside directorships are significantly greater among less diversified firms ($\gamma = 0.16$; $t = 2.2$, $p=.05$) than they are among more diversified organizations ($\gamma = 0.06$; $t = 1.0$, p=ns). Again, the multi-sample analysis reported a significantly better fit (chi-square = 4.01, $p=.05$) when the CEO directorship coefficient was allowed to vary across subgroups. Thus, results show greater performance gains accrue from CEO outside board service when the firm is less diversified.

Examining control variables, prior performance demonstrated a consistently significant positive relationship with subsequent performance across all models. Thus, irrespective of environmental or strategic context, prior performance constituted a key determinant of future firm success. The results for CEO human capital were less consistent, but quite intriguing. CEO human capital reported very different effects in the industry concentration subsets – positive in the low context and negative in the high. A significant, positive effect was also observed among firms operating in high growth industries. This pattern confirms observations that CEO background is not a consistent determinant of firm performance; rather, context is critical (c.f. Finkelstein et al., 2009). The strongest, most beneficial effects of CEO human capital were observed in high growth environments and contexts where competition is more fragmented – in other words, contexts in which opportunities abound. Finally, firm size reported a consistently negative effect with subsequent performance in the various submodels, although both the magnitude and significance levels varied across models.

To summarize, results of hypothesis tests indicate CEO outside board service is beneficial to performance when the CEO faces job demands well served by executive embeddedness in the directorate network. A natural question is "might the same results be obtained through other directorship ties – specifically, those emanating from outside directors serving on the source firm's board (i.e., received ties)?" This option is attractive as it would potentially negate the need for CEOs to expend time and energy in service to outside firm/board activities. To address this question, we ran additional models incorporating a new measure: Non-CEO directorship ties. This measure comprised the total number of outside directorships maintained by the firm's board members, excluding the CEO. Hence, it gauged not only the number of directors from whom the CEO might derive direct insight, but their exposure to the broader intercorporate network. Analyses showed these ties were not a substitute for CEO outside directorships. Despite some minor variation in estimates, the overall pattern of significant effects associated with CEO outside directorships was unchanged. In short, the linkages created by inviting outside directors to serve on the source firm's board appear systematically different from the ties created by executive outside board service (Richardson, 1987; Palmer & Barber, 2001).

We also explored the possibility of non-linear effects -- in particular, the potential for diminishing returns to incremental CEO outside directorships. Based on reviewer suggestions, alternate models using log transformations of both total and *Fortune* directorships were examined to determine if incremental ties offer fewer net benefits to the firm. In all cases, the models based on raw indicators performed better; thus, support for a non-linear relationship was not observed. We caution, however, that this latter finding migh t be a function of the relatively low number of outside directorships maintained by CEOs. On average, CEOs maintained less than two outside directorships, and fully 95% of our sample maintained three or less.

DISCUSSION

CEO time and attention are finite resources. With only 24 hours in a given day, the allocation of a CEO’s energies is of critical importance to firms. This study was inspired by a theoretical debate surrounding a familiar, if increasingly infrequent, executive activity – CEO service on outside boards. On one hand, agency theorists contend the obligations attendant to outside directorships distract from source firm obligations and create the potential for managerial opportunism. On the other hand, embeddedness researchers contend important value is drawn both from the experience of and interpersonal ties afforded by outside director service. Our study empirically examined effects on source firm profitability and found that, in isolation, neither conceptualization is adequate. CEO outside directorships are neither uniformly beneficial nor detrimental to the firm success. Instead, they contribute significantly to performance in contexts where the potential gains of CEO outside board service align with the strategic and environmental imperatives facing the firm and its leadership (Kotter, 1982; Hambrick et al., 2005). Interestingly, in these contexts, negative effects are suppressed.

Specifically, we found no evidence that in high job demand contexts, CEOs capitalize on board service perquisites at the expense of source firm profitability. Quite the contrary: In these settings, CEOs appear to deploy the benefits of directorship ties in a manner that advantages firm performance. Overall then, greater support is found for a mid-range, contingency view of CEO outside board service.

Closer examination of our analyses reveals that CEO outside directorship ties are beneficial in contexts where firms face competitive constraints owing to low demand growth and market fragmentation (low concentration). In such contexts, the challenge of accruing incremental revenues at a profitable rate is formidable (Scherer, 1980). In low growth contexts, a stagnating customer base mandates the firm wrest incremental demand from competitors – an action likely to result in retaliation and an overall escalation of rivalry (e.g., Chen, Smith, & Grimm, 1992; Miller & Chen, 1996). In less concentrated industries, the challenge lies in contending with a diverse array of competitors and expanding the firm's market reach in an efficient manner. We find that in both of these contexts, CEO outside directorships afford performance gains. By broadening the CEO's environmental scan and providing exposure to a diverse array of strategic alternatives, the firm enjoys richer executive-level insight into the environment, as well as varied methods of competition (e.g., Useem 1984; Westphal et al., 2001). What's more, superior access to resources and attendant lowering of transaction costs helps reduce the firm's expense load (e.g., D'Aveni, 1990; Podolny et al., 1996). Thus, as expected, our findings show that CEO outside directorships provide the firm support needed to address industry threats in an effective (i.e., profitable) manner.

We also observe that CEO outside directorships are particularly helpful in less diversified firms, and expect this is at least partly due to the close correspondence between recognized benefits of outside board service (e.g., environmental scan, strategic learning) and CEO job demands (Williamson, 1975; Kotter, 1982). At lower levels of diversification, business strategy serves as a focal responsibility of the chief executive. As the firm increasingly diversifies, the CEO's responsibility shifts toward more of a financial, coordination role (e.g., Hitt & Ireland, 1986; Finkelstein, 1992; Michel & Hambrick, 1992). This tendency corresponds with practical limits on the CEO's ability to remain actively involved in management at the business-level (within more diversified firms) (Williamson, 1975: 125). Of course, these results may also be due to the difficulty inherent in transferring strategically complex information across firms and intra-organizational levels (e.g., Huber, 1982; Winter, 1987). In the case of more diversified firms, CEOs would need to not only import externally derived insights, but effectively channel them through to SBU heads for internal exploitation. Whatever the underlying mechanism, our results are plain -- as the scope of the firm broadens, it is less likely source firms will reap the potential benefits inherent in CEO outside board service.

Viewed in tandem, the results of our three contingency hypotheses suggest CEO outside directorships impart firm-level benefits particularly valuable to competitive strategy. We find that as evidenced in increased profitability, CEO directorships help the firm successfully mitigate threats imposed by powerful forces – e.g., buyers, rivals (Porter, 1980) – and further that capture of those benefits (again, as measured by superior performance) is related to the CEO's role. In less diversified firms wherein the CEO is more likely to be directly involved in formulating competitive strategy, the most significant performance gains are realized.

Overall, several contributions emerge from this study. The first and plainest is evidence that a contingency perspective on CEO outside directorships is more apt than either the strict agency or embeddedness one. Our findings are thus complementary to the literature on executive background and psychological profiles. Empirical studies show that specific types of CEO knowledge and expertise are beneficial to the extent they match the critical needs of the firm (cf. Carpenter et al., 2004; Finkelstein et al., 2009). Our findings reveal CEO board activity should be viewed through a similar contextual lens.

Our study also offers contributions to each of the underlying literatures. None of our analyses showed evidence of a negative impact on long-term firm performance. Thus, we found no support for the concern that executives might excessively indulge in outside directorships to the detriment of owner interests (e.g., Conyon & Read, 2006) – in this case, as measured by long-term profits. This is not to say that broader agency concerns are invalidated. Indeed, prior research shows that owners often suffer short-term negative wealth effects upon announcement of the CEO's appointment to an outside board (e.g., Rosenstein & Wyatt, 1994; Perry & Peyer, 2005). How might these different findings be reconciled? We expect several factors may be at work: First, NACD, SEC, and other professional association admonitions on outside board service have cast a negative pall on this activity. Hence, it may be the case that institutional norms and broader, adverse public sentiment play an important role in negative stock reactions at the time of announcement. Second, our dependent variable employs a longer-term horizon and highly visible measure of organizational (and therein, managerial) success. The latter quality especially encourages a potential alignment of firm and executive interests. Namely, CEOs have a strong reputational incentive not only to pursue outside directorships (Fama, 1980), but also to utilize that activity to advance the firm's interest as doing so affords incremental personal gain (Yermack, 2004; Wiesenfeld et al, 2008).

All told, what our results demonstrate is that despite initial, negative reaction, long term firm interests are not compromised by CEO outside board service. In fact, in many cases, prohibition of this activity is contrary to the long-term interests of the organization. Recent surveys report that two-thirds of major (S&P) firms now impose a limit on CEO service on outside boards, with many adopting outright proscriptions (Spencer Stuart, 2009). Our findings indicate that firm owners are likely better served not by blanket prohibition of outside board service (e.g., Neff, 1998; Lublin, 2001), but instead a more customized approach. In contexts where profits are likely to be enhanced – i.e., market stagnation, competitive heterogeneity, less diversification – owners would be well-served to encourage, if not perhaps aid in the development of CEO directorship opportunities. In reducing some of the information asymmetry regarding this activity, our study sheds light on how monitoring, and ultimately firm outcomes, might be improved.

With regard to the embeddedness literature, our analyses show that organizational context matters. Participation in the intercorporate directorship network may proffer many benefits (e.g., Burt, 1983), but the CEO and organization must be contextually primed to capitalize on their positive effects. Our results show that when outside directorships match the CEO's specific job demands, particularly ones imposing urgent strategic challenge, the benefits of outside board service are most likely to be deployed effectively within the source firm. Absent this context, the potential gains of CEO outside directorships are not particularly helpful to overall performance. Our findings also reveal the need to examine embeddedness more thoroughly from a strategic standpoint. Competitive concerns have often been overlooked in the embeddedness literature (Westphal et al., 2006). Our results suggest this oversight is likely to not only promote over-estimation of embeddedness benefits, but also inefficient application of resources. Considerable time and effort are expended in the establishment and maintenance of interpersonal ties (e.g., Burt, 1992; McFadyen & Cannella, 2004). Unless the context is apt for capturing embeddedness benefits of outside directorships, CEO time and attention may be better dedicated elsewhere.

Finally, our study extends understanding of strategic leadership by providing clear evidence that firm profiles are shaped by more than executive demographics (Hambrick & Mason, 1984). It also affirms observations that executive roles and activities are relevant to performance (Mintzberg, 1978; Carpenter et al., 2004). And more directly, our research provides initial empirical support for the executive job demands concept (Kotter, 1982; Hambrick et al., 2005). As Kotter (1982) notes, executive job demands (especially at the CEO-level) are assumed homogeneous across firms. His research, and that of Hambrick et al. (2005), suggests this assumption is incorrect. The challenges faced by executives vary across organizations, and these differences are likely to hold import not only for executives' daily responsibilities, but owners' interests, as well.

That said, our research also suggests a refinement to the job demands stream. Hambrick and colleagues (2005) proposed executives might respond to challenging job demands in an adverse fashion, for example with a threat-rigidity response (Staw, Sandelands, & Dutton, 1981). Our study, while not intended as a comprehensive examination of Hambrick et al.'s (2005) model, suggests a more positive, resourceful response. Specifically, many CEOs who serve on outside boards appear to tap the knowledge and insights accorded by directorship ties -- particularly when demanded by the firm's strategic contingencies – to the firm's benefit. These findings, consistent with Eisenhardt's (1989b) research on decision making under extreme uncertainty, suggest outside directorships constitute an on-demand means of augmenting competitive acumen at the upper-echelon level.

Our findings also bring to light several important questions for future research. The model we developed and tested is a foundational one, and there remain a number of avenues by which it might be elaborated. For example, alternative competitive contexts might be examined, including international expansion and/or periods of technological disruption. A richer exploration of the underlying trade-offs associated with CEO outside directorships is also warranted. An assumption implicit in our model was that absent outside board responsibilities, CEOs would focus inwardly, on source firm operations (e.g., McFadyen & Cannella, 2004). This may not be the case. CEOs who decline or are prohibited from outside board service might instead pursue alternative external ties – e.g., trade or professional association ties, informal personal networks – or for that matter, may divert their attention to any number of different activities. The latter point highlights a rather large gap in our understanding. Since Mintzberg's (1973) and Kotter's (1982) studies, little research has directly examined executive expenditure of time, much less the portfolio of activities and roles assumed by CEOs. Clearly, an update that examines the contemporary allocation of CEO time and attention would prove fruitful.

The same is true for examination of the dynamic processes surrounding executive activities, including outside board service (Carpenter et al., 2004). The cross-sectional design of our database did not permit exploration of how directorship effects might vary over time. Research examining how benefits and risks of outside board service unfold – for example, by exploring the incremental effects of adding or deleting ties – is critical. So, too, is closer examination of the processes and mechanisms underlying directorship effects. Our model is grounded in research that uncovered empirical evidence of environmental scan (Useem, 1984), learning (e.g., Haunschild, 1983), and other implications of directorship networks. However, we were unable to determine which of these intervening factors accounted for our findings. This limitation is common to research on social networks and due in part to conceptual and methodological nesting, particularly of information-related benefits (e.g., learning, environmental scan). Nevertheless, research that distinguishes intervening processes and explores them more fully would shed new and critical light on how firm interests are maximized.

It is also important to note other limitations of our work. To avoid potential bias of results, we chose a sampling timeframe expected to precede institutionalized prohibitions on outside board service. Our findings may not generalize to different timeframes. In today's environment, CEOs undertake far fewer outside directorships (Spencer Stuart, 2009). This tendency, together with the growing momentum toward curbs on outside board activity, suggests our results should be applied cautiously. It may be the case that executives currently approach outside directorships in an altogether different fashion (e.g., given the attendant negative pall over outside board service) than during our study period. Further, our sample was limited to *Fortune* 1000 firms. Results may not extend to smaller, private, or non-U.S. firms.

CONCLUSION

Over the last two decades, a debate has waged over CEO outside directorships. Momentum, particularly in practice, has favored a negative view and, in turn, precipitated an assortment of recommendations intended to improve corporate governance. Initiatives such as the separation of CEO and chairman positions have been advanced with the aim of safeguarding owner interests. In many cases, however, empirical evidence does not support these reforms (Ghoshal, 2005). Our findings provide incremental evidence that 'good governance' guidelines do not always serve the firm or its owners well. Specifically, we find restrictions on CEO directorships may actually inhibit organizations and their leaders from maximizing long-term source firm performance. We hope our findings might spur additional research and ultimately contribute to the creation of more informed guidelines and practices in the strategic leadership and governance arenas.

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TABLE 1

Descriptive Statistics

		1	2	3	4	5	6	7	8	9	10	11	12
1	LT Performance - ROA	1.00											
2	LT Performance - ROS	0.25	1.00										
3	*Fortune* Directorships	0.04	-0.03	1.00									
4	Total Directorships	0.05	-0.04	0.82	1.00								
5	Directorships Average Size	0.06	-0.06	0.69	0.68	1.00							
6	Directorships Average Profitability	0.01	-0.02	0.16	0.14	0.27	1.00						
7	Firm Size	-0.10	0.01	0.12	0.04	0.16	0.07	1.00					
8	Prior Performance	0.35	0.09	0.04	0.00	-0.01	0.03	-0.06	1.00				
9	CEO Human Capital	0.05	0.11	0.06	0.05	0.03	0.05	0.11	-0.05	1.00			
10	Industry Growth	-0.07	0.14	-0.12	-0.09	-0.10	0.01	-0.03	0.25	-0.11	1.00		
11	Industry Concentration	0.04	-0.03	0.04	0.02	0.08	0.03	-0.14	0.12	0.07	0.01	1.00	
12	Diversification	0.04	-0.03	0.15	0.07	0.11	0.04	-0.13	0.00	0.09	-0.24	0.20	1.00
	Mean	0.03	0.19	0.98	1.57	4.62	0.05	7046	0.04	3.97	0.08	328.29	0.54
	Standard Deviation	0.35	2.61	1.24	1.62	3.73	0.17	17729	0.09	1.38	0.12	501.26	0.54

N = 460 firms
Correlations greater than 0.10 are significant at p=.05

TABLE 2

Results of Contingency Models

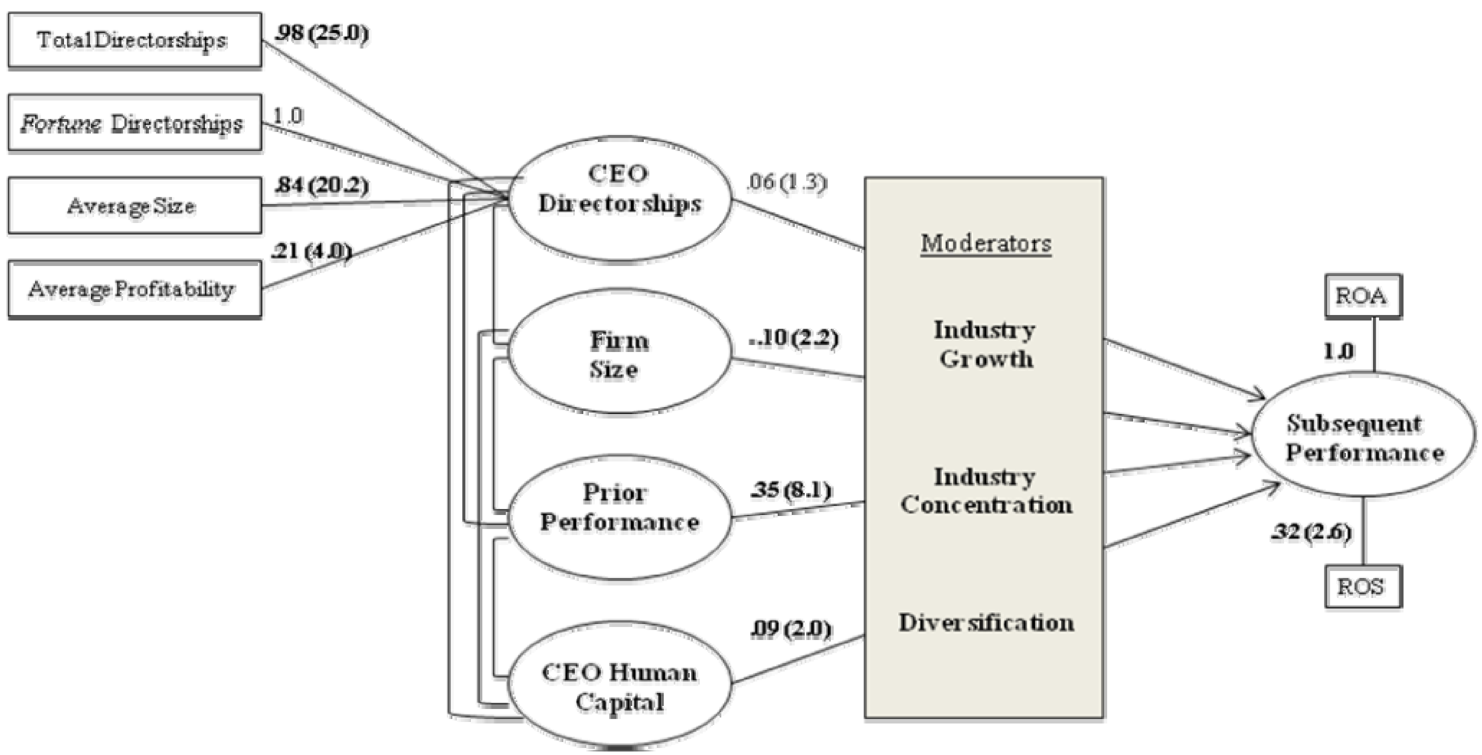
Moderator Variables and Levels		Predictor		Controls						Summary Fit Measures				
		CEO Dir. Network		Prior Performance		Firm Size		Human Capital						
Variable	Level	*γ*	*t*	*γ*	*t*	*γ*	*t*	*γ*	*t*	χ^2	χ^2/df	*GFI*	*RMSR*	CED
Baseline/Main Effect Model		.06	1.3	**.35**	**8.1***	**-.10**	**2.2***	**.09**	**2.0***	41.85	2.09	.98	.05	
Industry	High	.07	1.0	**.32**	**4.8***	-.06	1.0	**.13**	**2.0***	19.98	1.0	.98	.04	.16
Growth	Low	**.24**	**3.2****	**.43**	**7.2***	**-.15**	**2.6***	-.03	0.4	37.92	1.90	.96	.05	.30
Industry	High	.03	0.7	**.22**	**4.3***	-.05	1.2	**-.10**	**2.4***	32.57	1.63	.98	.05	.03
Concentration	Low	**.20**	**2.6***	**.58**	**8.0***	-.14	1.7	**.20**	**2.8****	35.99	1.80	.95	.05	.51
Diversification	High	.06	1.0	**.26**	**4.0***	-.05	0.9	-.01	0.2	66.47	3.32	.94	.10	.06
	Low	**.16**	**2.2***	**.46**	**7.5***	-.11	1.8	.11	1.8	28.05	1.40	.97	.04	.30

Significant path coefficients are shown in **boldface**.

* p = .05
** p = .01
*** p = .001

FIGURE 1

Conceptual Model Used to Test Hypotheses



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