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The board chair effect across countries: An institutional view

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Abstract

***Research Summary*:** Strategic leadership scholars have produced consistent evidence that the CEO effect on firm performance depends on the latitude of actions CEOs enjoy in their particular context. We argue that as the governance leaders of their firms, board chairs choose a firm's objectives more than they do its actions. As a result, the board chair effect should vary with latitude of objectives, rather than latitude of actions. We explore this possibility by comparing the board chair effect in two countries with relatively high latitude of objectives—Germany and China—with the board chair effect in two countries with relatively low latitude of objectives—the United States and United Kingdom. Results confirm that latitude of objectives influences the effect of board chair heterogeneity on firm performance.

***Managerial Summary*:** Do board chairs matter to different degrees in different countries? Building on prior work showing that U.S. board chairs account for a significant portion of firm performance, we collected data on board chairs from four different countries to find out if this effect differs by institutional environment. We find that board chairs matter for firm performance across countries, but that board chairs in Germany and China exhibit a considerably larger effect on firm performance than do board chairs in the United States and United Kingdom. We interpret these findings as evidence that board chairs enjoy wider discretion with regard to organizational objectives

in Germany and China than they do in the United States and United Kingdom.

KEYWORDS

board chair effect, corporate governance, cross-country comparison, institutional environment, variance decomposition

1 | INTRODUCTION

Strategic leadership scholars have long sought to understand organizational leaders' impact on firm performance, with a particular emphasis on the share of variance in performance attributable to individual CEOs. In spite of disagreement over the magnitude of the effect (e.g., Fitza, 2014, 2017; Quigley & Graffin, 2017), scholars examining the CEO effect have generally reached a consensus that CEOs do matter for firm performance (e.g., Crossland & Hambrick, 2011; Mackey, 2008; Quigley & Hambrick, 2015). These studies focus on the CEO effect based on the premise that the CEO is the leader of the organization and thus a good proxy for the overall effect of strategic leaders.

However, firms are increasingly separating the positions of CEO and board chair (Krause & Semadeni, 2013, 2014), raising the question of how influential the board chair—the firm's *governance* leader—is when separate from the CEO. Recently, Withers and Fitza (2017) provided the first evidence that individual heterogeneity among board chairs explains a significant percentage of variance in performance among U.S. firms. Using a variance decomposition methodology with a sample of publicly traded U.S. firms, Withers and Fitza (2017) found that individual differences among board chairs explained 9.2% of variance in firm performance and individual differences among CEOs explained 11.1% of variance in firm performance. Recent research from Krause et al. has further demonstrated that board chairs differ in how they approach firm governance, with some oriented more toward control and others oriented more toward collaboration, and that this difference can affect firm performance (Krause, 2017; Oliver, Krause, Busenbark, & Kalm, 2018).

Though Withers and Fitza (2017) found that both board chairs and CEOs exhibited a significant effect on firm performance, fundamental theoretical differences between the role of board chair and the role of CEO raise questions about whether prior empirical findings relating to the CEO effect can be generalized to the board chair as well. In particular, the primary theoretical mechanism—and contingency factor—scholars have used to explain the effect of CEOs on firm performance is managerial discretion (Finkelstein & Boyd, 1998; Hambrick & Finkelstein, 1987). Tracking variance in managerial discretion across countries (Crossland & Hambrick, 2007, 2011), industries (Hambrick & Quigley, 2014), and time periods (Quigley & Hambrick, 2015), strategic leadership scholars have routinely shown that in environments with higher managerial discretion the CEO effect is stronger.

There are two types of managerial discretion, however: latitude of actions and latitude of objectives (Parker, Krause, & Devers, 2019; Shen & Cho, 2005). Whereas "latitude of actions addresses the range of strategic options available to managers as they strive to bring about the performance demanded by stakeholders" (Shen & Cho, 2005, p. 846), latitude of objectives addresses "the range of organizational outcomes managers believe they are able to target" (Parker et al., 2019, pp. 15–16). Generally, the choice of strategic actions in pursuit of particular objectives falls more to the CEO and top management team, whereas the choice of which objectives to pursue falls more to the board (Shen & Cho, 2005; Whitler, Krause, & Lehmann, 2018). Understandably, then, the CEO effect

literature has focused on variance across environments with different latitudes of actions (e.g., Crossland & Hambrick, 2011). As the leader of the firm's *governing* body, however, the board chair's impact should vary with latitude of objectives more than with latitude of actions, provided that the board chair is not also CEO.

With this research, we build on Withers and Fitza's (2017) initial study and test whether the board chair effect is stronger in environments with higher latitude of objectives. Following Crossland and Hambrick's (2007, 2011) studies of country-level latitude of actions, we identify latitude of objectives at the country level based on formal and informal governance institutions (see Aguilera & Jackson, 2003; North, 1990). We collected data from four countries: the United States, the United Kingdom, Germany, and China. Despite having among the highest latitude of actions in the world (see Crossland & Hambrick, 2011), firms in the United States and the United Kindgom. have notoriously little latitude of objectives, being highly constrained to the pursuit of shareholder value maximization as the primary corporate objective by both formal and informal institutions (Zajac & Westphal, 2004). In contrast, despite having considerably lower latitude of actions (see Crossland & Hambrick, 2011), firms in Germany have a much wider array of objectives from which to choose, encouraged by formal institutions that require boards to balance often competing stakeholder groups (Crossland & Hambrick, 2007; Fiss & Zajac, 2004). Firms in China also enjoy wider latitude of objectives, however, Chinese firms' latitude stems from lax enforcement of formal institutions as well as the informal institution of power distance afforced to board chairs (Hoskisson, Wright, Filatotchev, & Peng, 2013; Li, Poppo, & Zhou, 2008).

Consistent with our assumptions about latitude of objectives at the country level, we find that the board chair effect is significantly greater in China and Germany than in the United States or United Kingdom. In reporting these findings, we contribute to the existing literature by highlighting that the board chair effect manifests through different mechanisms than the CEO effect. Were the two theoretically equivalent, latitude of actions would drive the board chair effect as it does the CEO effect, with board chair heterogeneity explaining less variance in firm performance in Germany than in the United States or United Kingdom (Crossland & Hambrick, 2007). Instead, we demonstrate that the role of board chair is unique from the role of CEO, depending more on latitude of objectives, and thus must be theorized separately. We also contribute by expanding the nascent board chair effect literature beyond the U.S. context. Given that corporate governance varies by institutional context (Aguilera & Jackson, 2010), it is of theoretical importance to examine differences in the effects of board chairs across countries. With that said, we are also able to report U.S. results similar to Withers and Fitza's (2017), providing corroborating evidence that even in environments with comparatively low latitude of objectives, board chairs perform unique functions and explain a significant portion of the variance in firm performance. These results suggest that board chairs are an important organizational phenomenon worthy of continued study.

2 | THEORY AND HYPOTHESES

2.1 | Latitude of objectives as board chair discretion

In contrast to the relatively linear development of the latitude of actions construct, scholars have adopted different approaches to studying latitude of objectives. Shen and Cho (2005: 845) originally derived the term from Williamson's (1963) conceptualization of managerial discretion as "the freedom managers may have in pursuing personal objectives in pay, power, status, and prestige." They then condensed this definition to encompass merely "the performance pressure faced by managers"

(Shen & Cho, 2005,p. 846). Recognizing that firms can pursue multiple objectives that cater to different stakeholder groups, Parker et al. (2019) used a more expansive definition of latitude of objectives to encompass the span of possible outcomes firms can choose to target in their decision-making. This definition sees constraints on latitude of objectives as more externally imposed than internally derived. Under this broader conceptualization, a firm has greater latitude of objectives to the extent that it can choose its objectives from a wider set of stakeholder priorities (e.g., employee welfare).

Whereas the CEO and the management team are chiefly responsible for crafting strategies to achieve the firm's objectives, it is the board that primarily decides and enforces these objectives among the firm's executives (McNulty & Pettigrew, 1999; Whitler et al., 2018). The board sets firm objectives through several mechanisms, perhaps most notably through structuring incentives in management compensation contracts (Chizema, Liu, Lu, & Gao, 2015; Tosi & Greckhamer, 2004); but also through direct guidance, control, and if needed, dismissal of firm executives (Chen, Crossland, & Huang, 2016; Hubbard, Christensen, & Graffin, 2017). At firms where the CEO and board chair positions are held separately, the chair is the formal leader of the firm's governing body, and thus the ultimate authority on firm objectives (Krause, 2017; Withers & Fitza, 2017).

Some boards—and thus, board chairs—have greater latitude of objectives than others, however. Specifically, scholars have generally recognized national institutional context as a major source of variance in board latitude (see Aguilera & Jackson, 2010). We propose that in institutional contexts characterized by high latitude of objectives, the board chair effect on firm performance will be greater. Withers and Fitza (2017) found that the board chair effect is stronger in industries with high task uncertainty, but industry task uncertainty relates most closely to latitude of actions (Finkelstein & Boyd, 1998; Haleblian & Finkelstein, 1993), and as such, applies at least as much—if not more—to the CEO and top managers' work than to the board's. Setting of firm objectives is a responsibility more specific to the board (McNulty & Pettigrew, 1999; Whitler et al., 2018), making latitude of objectives more uniquely suited as a contingency factor for the board chair effect.

To test our overall proposition that latitude of objectives drives the degree to which board chairs impact firm performance, we must specify country-specific differences in latitude of objectives. In the following pages, we articulate how two national institutional contexts with relatively lower latitude of objectives—the United States and the United Kingdom—differ from two national institutional contexts with relatively higher latitude of objectives—Germany and China—and how this difference is likely to impact the board chair effect across these countries.

2.2 | An institutional view of latitude of objectives

2.2.1 | Latitude of objectives in the United States and United Kingdom

The latitude of objectives United States and United Kingdom boards face has been relatively limited since maximization of shareholder value became established as the central goal of firm governance and an institutional pillar for business in both nations (Fiss & Zajac, 2004; Zajac & Westphal, 2004). The view of shareholder value maximization as the central goal of firm governance has existed—though not necessarily as a dominant view—since the establishment of public firms in the United States (England, 1967). Berle and Means (1932) notably argued that the board of directors' role was to safeguard shareholder value against managerial opportunism.

The strength of the belief in profit maximization is such that it has become routine for journalists, economists, and other business observers in the United States and United Kingdom to claim that the board of directors—including a separate chair, if present—has a responsibility to maximize

shareholder value (Husted & De Jesus, 2006), even though maximizing shareholder value is not a statutory requirement (Stout, 2012). Even in the absence of statutory law, if the board fails to focus sufficiently on shareholder value, shareholders can sue the board, as upheld recently in the 2010 eBay Domestic Holdings Inc. v. Newmark decision of the Delaware Court of Chancery.

This institutional environment restricts U.S. and U.K. firms' latitude of objectives by isolating a single overarching goal the organization must ultimately pursue (Parker et al., 2019). The noteworthy exceptions in the United States and United Kingdom that deviate from shareholder value maximization can do so because they are dominated by founders with significant ownership who possess the power to redefine shareholder interests as their own (e.g., Howard Schultz at Starbucks). Even in these cases, however, boards and executives typically defend their actions in terms of long-term shareholder value maximization.

2.2.2 | Latitude of objectives in Germany

In contrast to the singular focus on shareholder value maximization among U.S. and U.K. firms, German firms face an institutional environment characterized by a wider set of objectives. The German system of corporate governance dates to the 19th century, when public firms were first being established in Germany. The law at that time required that there be two boards of directors: a managerial board composed of executive officers of the firm (Vorstand) and a supervisory board composed of independent nonexecutives (Augsichtsrat). The supervisory board responsibilities included holding management accountable, overseeing appointments to the executive board, approving major business decisions, and ensuring that the firm considered the public interest in its decision-making (Fear & Kobrak, 2010). The chair of the supervisory board played the key role among the various board members even at this early stage to balance these various demands on the supervisory board (Hilferding, 1981).

The managerial board largely has stayed constant over time, overseeing firm operations and choosing from among a constrained set of strategic actions (Crossland & Hambrick, 2007). However, the composition of the supervisory board changed after the German defeat in World War I. Specifically, worker councils were first established inside firms at this time to help address specific worker concerns in each factory (Buck & Tull, 2000), and were also empowered to elect one or two representatives to the supervisory board of directors. After Germany's defeat in World War II, the occupying Allied forces were concerned with how to decrease the power of the owning families and conservative economic interests who had supported the Nazis. Worker councils emerged as a powerful counterweight, and the law adapted to require that one third to one half of the members on the supervisory board come from the worker councils (Buck & Tull, 2000).

In Europe, unions negotiate for all workers in an industry and all firms in the nation have to accept that contract for their workers (Friedman, 2008). Thus, worker councils are elected by the local employees of the firm to address their local concerns beyond just wages and benefits, as those issues are established by national unions. Individuals elected to the local workers council can be union officials, but the worker council members are not always union officials. The same diversity of mandates and objectives is true at the level of the supervisory board. The result is that the members of the supervisory boards can reflect any of a rich set of concerns that workers might have. For example, the workers on the supervisory board can bring heightened concerns around topics such as diversity, the environment, and the given firm's activities in foreign markets to the supervisory board in a way that would not occur in a board of directors in the United States or the United Kingdom, where shareholder value remains the dominant concern.

Thus, the chair of the supervisory board in Germany must balance a far richer set of concerns than simply shareholder value and must also manage a far wider diversity of interests on the board than occurs in the United States or the United Kingdom. Given these differences in formal governance institutions between Germany and the United States or United Kingdom, we expect that the supervisory board chair in Germany has greater latitude of objectives, and as such, likely has a greater impact—positive or negative—on the performance of the firm than a U.S. or U.K. board chair does.

Hypothesis (H1). *The board chair effect on firm performance is greater among firms in Germany than among firms in the United States*.

Hypothesis (H2). *The board chair effect on firm performance is greater among firms in Germany than among firms in the United Kingdom*.

2.2.3 | Latitude of objectives in China

China has a similar *formal* structural system to the United States and the United Kingdom (see Ribeiro & Hui, 2017 for details on the structure and duties of Chinese boards). In large measure, this is because the Chinese government has sought to imitate Western-style oversight mechanisms and corporate governance to build public confidence in Chinese firms listing their stock publicly (Kang, Shi, & Brown, 2008). However, for China a key difference in their corporate governance lies in the enforcement of formal institutions, as well as in the informal cultural institutions. Regulations in China are enforced selectively and based more on personal connection than on strict adherence to the law (Kang et al., 2008). In addition, courts in China are not independent and can be susceptible to corruption (Cai, 2007). Whereas regulators in the United States and United Kingdom (e.g., the Securities and Exchange Commission) enforce the law with some degree of independence, and thereby hold boards to their fiduciary responsibility to shareholders, the inconsistent and frequently lax enforcement of such laws in China leaves boards with greater latitude of objectives. Similarly, the evolving rule of law in China makes successfully suing a board of directors for not maximizing shareholder value fairly unlikely (Chin, 2016). The weak enforcement of formal institutions thus invites Chinese boards to pursue a wider range of objectives than their U.S. and U.K. counterparts can.

In addition, an informal institution that results in differences from the U.S. and U.K. is the power of the board chair and the cultural power distance within China. In the U.K., the board chair is almost always an independent director (Lorsch & Zelleke, 2005). In the U.S., about half of non-CEO board chairs are independent, and the other half are the former CEO or firm founder (Spencer Stuart, 2017). In the latter instance, most U.S. firms have an independent lead director to lead the board's independent directors in their monitoring duties (Krause, Withers, & Semadeni, 2017). Thus, board chairs in the U.S. and U.K. are fairly constrained in their ability or inclination to deviate from shareholder value maximization.

In contrast, board chairs in China often are the firm founder and significant shareholder—if the firm is not state-controlled—and generally enjoy immunity from internal challenge, regardless of the firm's ownership, due to strong cultural power distance. In China, directors typically serve on the board at the discretion of the chair (Kang et al., 2008), making it unlikely that many will openly challenge the board chair's decision-making (Ma & Khanna, 2016). Cultural power distance, which is

much higher in China than in the United States, United Kingdom or Germany (House, Hanges, Javidan, Dorfman, & Gupta, 2004), is "the extent to which a society accepts the fact that power in institutions and organizations is distributed unequally" (Hofstede, 1980, p. 45). Because of their position of authority on the board and within their organizations, board chairs in China enjoy a deference and an access to opportunities not available even to CEOs. Many scholars have noted that this power and the associated deference to it in China have allowed board chairs to pursue their own objectives at the expense of minority shareholders (Qian, Wang, Geng, & Yu, 2017; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008).

These two factors—inconsistent regulatory enforcement and cultural power distance—combine to expand the latitude of objectives Chinese board chairs enjoy relative to their counterparts in the United States and United Kingdom. The formal structure and rules may look similar to the United States and United Kingdom, but the enforcement of formal institutions and the informal institutional setting is very different. Thus, while in Germany it is the formal institutions that expand the chair's latitude of objectives, in China it is informal institutions and the weak enforcement of formal institutions. Overall, then, we predict that among firms in China, the board chair effect on firm performance is greater than among firms in the United States or United Kingdom.

Hypothesis (H3). *The board chair effect on firm performance is greater among firms in China than among firms in the United States.*

Hypothesis (H4). *The board chair effect on firm performance is greater among firms in China than among firms in the United Kingdom.*

3 | METHODOLOGY

3.1 | Data

This study employs a panel dataset consisting of publicly traded firms from the United States, the United Kingdom, Germany and China from 1999 to 2016. We obtained board chair and CEO data for firms from the United States, the United Kingdom and Germany from the BoardEx database. BoardEx is a database that contains detailed demographic and network information on individual executives and directors from approximately 30,000 companies worldwide. Its broad coverage of firms from multiple countries has facilitated the study of international and comparative corporate governance (e.g., Erkens, Hung, & Matos, 2012). It also allows us to study a larger sample of U.S. firms with a wider range of performance values than what Withers and Fitza (2017) examined in their board chair effect study. The sample in this study starts with 1999 because that is the earliest year for which data are available on BoardEx. The closing year, 2016, is the latest year for which complete data are available.

Whereas BoardEx provides extensive corporate governance information on firms in North America and Europe, it covers only a small subset of firms in China (i.e., 625 firms by 2017), and most of the Chinese firms covered in BoardEx are firms listed in overseas stock exchanges such as the New York Stock Exchange (NYSE), Nasdaq Stock Market, and Hong Kong Exchanges (HKEX). We thus obtain data on board chairs and CEOs for firms in China from the China Stock Market and Accounting Research (CSMAR) database. CSMAR is one of the leading financial data and financial

software providers in Mainland China. It covers all the companies listed in Chinese stock exchanges, including the Shenzhen Stock Exchange and Shanghai Stock Exchange. It has supplied data for recent research published in major management journals (e.g., Lin, Peng, Yang, & Sun, 2009), and is a reliable source of information on publicly listed Chinese firms.

3.2 | Identifying the board chairs, CEOs, and industries

We identified board chairs and CEOs for firms from the United States, the United Kingdom and Germany by relying on job title information provided by BoardEx. More specifically, we identified board chairs by using the following procedures. First, directors with the titles chairman or chairwoman were identified. Second, for companies from Germany, we checked whether the board chairs were chair of the Aufsichtsrat (supervisory board) or the Vorstand (managerial board), and coded the chair of the supervisory board as the board chair for the purpose of our study.

The identification of CEOs is more complex, as the top executive titles vary both across countries and within countries. In the United States, the term "chief executive officer" was in universal use. We hence identified executives with the title chief executive officer, chief executive or CEO as the top executive. In the United Kingdom, the top executives could have the title "managing director" rather than "chief executive officer." We hence first identified executives with the title chief executive officer, chief executive or CEO as the top executive. If the proceeding step failed to identify the top executive of a company, we further coded the executives with the title "managing director" as the top executive.

In Germany, the closest equivalent to the CEO or managing director is the chair of the managerial board. We hence coded the chair of the managerial board as the CEO. Despite the prevalent use of the managerial board chair title to signify the firm's top executive, there are some firms in Germany in which the executives hold the title of CEO rather than the chair of the managerial board. Thus, for firms without a managerial board chair listed, we identified those with the title chief executive officer, chief executive or CEO as the top executive. Furthermore, a few firms refer to their top executive as Sprecher (spokesperson) (Crossland & Hambrick, 2007). Hence, if the above two steps failed to identify the CEOs, we identified as top executives those with this title.

We identified board chairs and CEOs for firms in China by using the data from the CSMAR database. CSMAR provides information on the names of the CEO and board chair who were in office at the end of the year for each Chinese public firm for each year. China has modeled its corporate governance regulations and practices on developed countries, most notably the United States. As a result, ever since the early 1990s, when the Chinese government opened the Shanghai and Shenzhen Stock exchanges, listed companies in China have distinguished between the titles of CEO and board chair, similar to the United States. More specifically, the top executive in China has the title of "Zong Jing Li," whereas the board chair has the title of "Dong Shi Zhang." According to the Companies Law of the People's Republic of China, "Zong Jing Li" and "Dong Shi Zhang" in China have similar responsibilities to the CEO and board chair in the United States, respectively. In order to ensure that the coding provided by CSMAR is reliable, we also collected data on CEOs and board chairs from the WIND database, another major financial data provider in Mainland China. WIND offers data on the names of CEOs and board chairs for all public firms on a daily basis. We downloaded from WIND the names of CEOs and board chairs who were in office at the end of the fiscal year for each public firm. The fiscal year for all Chinese companies starts on 1 January and ends on 31 December. The data from WIND corroborate that the CEO and board chair data offered by CSMAR are accurate.

We did not rely on the names of the executives and directors to code the CEOs and board chairs. Indeed, there are cases in which two different CEOs or board chairs have the same name. Both BoardEx and CSMAR have taken this into account and offered IDs for all the executives and directors covered in the databases. We also manually checked the biographic information of the CEOs and board chairs who are of the same name but have different IDs. We found that the coding offered by BoardEx and CSMAR is valid. We thus relied on the ID provided by these two databases to code the CEOs and board chairs.

In a small number of cases, firms in our sample have co-CEOs or co-chairs. Specifically, 0.69% of firms have co-CEOs, 0.81% of firms have co-chairs. Prior studies have never examined the CEO effect or board chair effect at the dyadic or group level, and we consider this an important area of future study, but one which is not appropriate to the present research. As such, we removed from our sample firms with co-CEOs or co-Chairs.

We identified the firms' industries using 4-digit SIC codes provided by Datastream. Firms in different countries may use different industry classifications. For example, China Securities Regulatory Commission (CSRC) provides its own industry classification for firms listed in China. Datastream, however, provides SIC codes for all the companies from different countries, allowing us to use the same industry classification standard for all firms. Prior studies on CEO effect and board chair effect have also used 4-digit SIC codes (e.g., Withers & Fitza, 2017).

3.3 | Sample

As the CEO and board chair effects are indistinguishable from firm effects if the CEO and board chair do not change at any point in the study window (Mackey, 2008), we excluded from the sample firms that experience no change in the board chair or CEO position during the period under study. In order to differentiate the board chair effect from the CEO effect, we also excluded from the sample firms in which the CEO and board chair positions were held by the same person. Furthermore, because variance decomposition analysis can be highly influenced by outliers, consistent with prior studies (Crossland & Hambrick, 2011; Fitza, 2014), we also deleted all observations above the 99th percentile and below the 1st percentile of our dependent variable within each country.

Our final sample contained 11,937 firm-year observations in the United States (1,851 firms with 3,516 CEOs and 3,369 chairs in 389 industries), 8,742 firm-year observations in the United Kingdom (912 firms with 2,186 CEOs and 1,939 chairs in 296 industries), 1,764 firm-year observations in Germany (152 firms with 410 CEOs and 384 chairs in 88 industries), and 17,746 firm-year observations in China (1,466 firms with 5,260 CEOs and 4,729 chairs in 325 industries).

3.4 | Dependent variable

Following prior research on the CEO effect and board chair effect, we use ROA as our measure of firm performance (Fitza, 2014; Withers & Fitza, 2017). The data on ROA were derived from Datastream[1] (code WC08326), which covers financial data on public firms from over 170 countries. Compustat also covers financial data on public firms from different countries. However, in this study when we matched the data on CEOs and board chairs with data on ROA, we found that we can match many more firms by using Datastream.

Furthermore, CSMAR also offered data on ROA for Chinese public firms. However, the measurement of ROA in CSMAR is slightly different from that in Datastream. Hence, in order to keep the

[1]In Datastream, ROA is measured as (Net income-Bottom line+(Interest Expense on Debt-Interest Capitalized)*(1-Tax Rate)))/Average of last year's and current year's total assets*100

consistency of ROA measurement across countries, we used ROA data provided by Datastream as the measurement of performance of companies covered in our study. More specifically, as both BoardEx and Datastream offered ISIN codes for the public firms, we matched the data from BoardEx and Datastream by ISIN code. Though CSMAR does not provide ISIN code for firms listed in China, both CSMAR and Datastream offer information on the stock code of Chinese listed firms. We thus matched data from CSMAR and Datastream by stock code.

3.5 | Analysis

Historically, studies estimating strategic leadership effects on firm performance have relied on either analysis of variance (ANOVA) or variance component analysis (Crossland & Hambrick, 2007; Lieberson & O'Connor, 1972). These two techniques, however, "do not identify the structural relationship which may exist" among different effects (McGahan & Porter, 2002, p. 849). Recent studies using variance decomposition analysis in turn suggested that hierarchical linear modeling (HLM) is the more appropriate method of analysis when there are nested relationships between effects (Crossland & Hambrick, 2011; Hough, 2006; Misangyi, Elms, Greckhamer, & Lepine, 2006). Given that in our study years are nested within board chairs and CEOs, which are nested within firms, which are in turn nested within industries (Crossland & Hambrick, 2011), we have judged HLM to be the most effective technique for us to estimate the board chair effect (Majumdar & Bhattacharjee, 2013). Therefore, we employ HLM to evaluate the board chair effect on firm performance.

We used a 4-level nested HLM model of years (level 1), nested within board chairs and CEOs (level 2), nested within firms (level 3), which is finally nested within industries (level 4). It should be noted that both the board chair effect and CEO effect are at the same level of analysis (level 2), as there is not a nested relationship between these two effects. Following the terminology used by Bryk and Raudenbush (1992), we used level 1 to denote the lowest level, and level 4 to denote the highest level. In the HLM analysis, we followed Singer's (1998) guidelines and selected the "unstructured" covariance structure.

In our model, firm performance in a particular firm-year thus was modeled as a grand mean (δ_{0000}), with random effects for industry k (γ_{000k}), firm j (β_{00jk}), CEO i (π_{0ijk}), board chair h (ρ_{0hjk}) and year t (η_{thijk}), and an overall error term (ϵ_{thijk}). In order to get the estimates of the year, board chair, CEO, firm, and industry effects, we ran two sets of equations. First, an unconditional (no predictors) three-level model is estimated. This set of equations is:

$$\begin{aligned}
\text{Firm performance}_{thijk} &= \pi_{0ijk} + \rho_{0hjk} + \epsilon_{thijk} \\
\rho_{0hjk} &= \beta_{00jk} + \xi_{hjk} \\
\pi_{0ijk} &= \beta_{00jk} + \eta_{ijk} \\
\beta_{00jk} &= \gamma_{000k} + \varepsilon_{jk} \\
\gamma_{000k} &= \delta_{0000} + \zeta_{k}
\end{aligned} \tag{1}$$

where ϵ_{thijk}, ξ_{hjk}, η_{ijk}, ε_{jk}, and ζ_k are distributed normally, with a mean of zero and variances of σ^2, τ_ρ, τ_π, τ_α, and τ_β, respectively. Thus, the variance across time is σ^2, whereas between-board chair, between-CEO, between-firm and between-industry variances are τ_ρ, τ_π, τ_α, and τ_β, respectively.

Next, we ran another set of equations (i.e., conditional model) incorporating year effects at the lowest level of the nested equation:

$$\begin{aligned}
\text{Firm performance}_{thijk} &= \pi_{0ijk} + \rho_{0hjk} + \pi_{1hijk}(Year)_{thijk} + \epsilon_{thijk} \\
\rho_{0hjk} &= \beta_{00jk} + \xi_{hjk} \\
\pi_{0ijk} &= \beta_{00jk} + \eta_{ijk} \\
\beta_{00jk} &= \gamma_{000k} + \varepsilon_{jk} \\
\gamma_{000k} &= \delta_{0000} + \zeta_k
\end{aligned} \tag{2}$$

where π_{1hijk} represents year effects (i.e., the impact of macroeconomic fluctuations in business activities). Year is a matrix of dummy variables coded for each of the years included in the study for each board chair h, CEO i, firm j, and industry k. π_{0ijk} represents mean firm performance across time for CEO i in firm j in industry k, adjusted for year effects, whereas $\rho_{0hjk}$is firm performance across time for board chair h in firm j in industry k, adjusted for year effects.

Following Quigley and Graffin (2017), we employ equation sets 1 and 2 to examine the amount of variance attributed to each type of effect. More specifically, the conditional modeling (equation set 2) partitions the total variance in firm performance into four components: across time, σ^2; between board chairs, τ_ρ, between CEOs, τ_π; between firms, τ_α; and between industries, τ_β. These estimated variances then are used to calculate the relative effect sizes by dividing these four components by the total variance from the unconditional model. The amount of total variance attributed to each level is calculated as follows: $\frac{[\tau_\rho]_{\text{Equation 2}}}{[\sigma^2+\tau_\rho+\tau_\pi+\tau_\alpha+\tau_\beta]_{\text{Equation 1}}}$is the proportion of variance among board chairs; $[\tau_\pi]_{\text{Equation 2}}/[\sigma^2+\tau_\rho+\tau_\pi+\tau_\alpha+\tau_\beta]_{\text{Equation 1}}$ is the proportion of variance among CEOs; $[\tau_\alpha]_{\text{Equation 2}}/[\sigma^2+\tau_\rho+\tau_\pi+\tau_\alpha+\tau_\beta]_{\text{Equation 1}}$ is the proportion of variance among firms; and $[\tau_\beta]_{\text{Equation 2}}/[\sigma^2+\tau_\rho+\tau_\pi+\tau_\alpha+\tau_\beta]_{\text{Equation 1}}$ is the proportion of variance among industries.

Second, the total variance explained by year effects is calculated by comparing the time-level variance estimated in the conditional model (i.e., equation set 2) with that estimated in the unconditional model (i.e., equation set 1). More specifically, the year effect can be calculated as: $\left[\sigma^2_{\text{Equation 1}} - \sigma^2_{\text{Equation 2}}\right] / \left[\sigma^2+\tau_\rho+\tau_\pi+\tau_\alpha+\tau_\beta\right]_{\text{Equation 1}}$.

4 | RESULTS

4.1 | Hypothesis tests

Table 1 presents the descriptive statistics for ROA across the four countries covered in this study. Table 2 presents the HLM estimations of variance in ROA. The results in Table 2 show that the percentages of variance in ROA explained by board chairs are 10.37 in the United States, 6.98 in the United Kingdom, 29.03 in Germany, and 20.58 in China.

In order to test our hypotheses and examine differences in the board chair effect across institutional settings, we employed the confidence interval construction method developed by Olkin and

TABLE 1 Descriptive statistics of ROA

Country	Mean	Median	*SD*
United States	3.51	3.82	22.14
United Kingdom	−3.06	4.13	22.87
Germany	3.63	4.63	8.91
China	3.92	3.94	5.32

TABLE 2 HLM estimations of variance in ROA: United States, United Kingdom, Germany, and China

Country	Year effect	Industry effect	Firm effect	CEO effect	Chair effect	Residual
United States	0.67	10.24	40.51	10.36	10.37	27.86
United Kingdom	0.37	9.89	40.90	17.59	6.98	24.29
Germany	0.90	11.53	19.01	7.12	29.03	32.41
China	1.41	4.32	7.34	22.39	20.58	43.96

Finn (1995). This method relies on a confidence interval test to determine whether a given set of predictors performs equally well in two separate populations; specifically, a 95% confidence interval for the difference in board chair effects $R_i^2 - R_j^2$ is $R_i^2 - R_i^2 \pm (1.96) * \hat{}_{var}\left(R_i^2 - R_j^2\right)$, where R_i^2 is the variance in firm performance attributable to board chairs in one country i, and R_j^2 is the variance in firm performance attributable to board chairs in country j. The $\hat{}_{var}\left(R_i^2 - R_j^2\right)$ is the variance of $R_i^2 - R_j^2$, which can be calculated as $\frac{4}{n_i} R_i^2 \left(1 - R_i^2\right)^2 + \frac{4}{n_j} R_j^2 \left(1 - R_j^2\right)^2$, where n_i is the number of observations in country i and n_j is the number of observations in country j.

Table 3 presents the results of the confidence interval tests. Hypothesis (H1) states that the board chair effect is greater among firms in Germany than among firms in the United States. As Table 3 shows, the confidence interval for the difference between United States and German firms in terms of variance explained in ROA is [−32.80, −4.53]. The confidence interval excludes 0 and consists of a range of values that all constitute fairly significant variance explained (i.e., board chairs in Germany explain at least 4.53 percentage points more variance in ROA than do board chairs in the United States). Thus, we find support for Hypothesis (H1).

Hypothesis (H2) states that the board chair effect is greater among firms in Germany than among firms in the United Kingdom. The confidence interval for the difference between United Kingdom and German firms in terms of variance explained in ROA is [−36.16, −7.94]. The confidence interval excludes 0 and consists of a range of values that all constitute fairly significant variance explained (i.e., board chairs in Germany explain at least 7.94 percentage points more variance in ROA than do board chairs in the United Kingdom). Thus, we find support for Hypothesis (H2).

Hypothesis (H3) states that the board chair effect is greater among firms in China than among firms in the United States. The confidence interval for the difference between United States and Chinese firms in terms of variance explained in ROA is [−13.05, −7.39]. The confidence interval excludes 0 and consists of a range of values that all constitute fairly significant variance explained (i.e., board chairs in China explain at least 7.39 percentage points more variance in ROA than do board chairs in the United States). Thus, we find support for Hypothesis (H3).

TABLE 3 Comparison of chair effects across countries

Country comparison	Percent of variance attributable to board chair	95% confidence interval of difference	
		Lower bound	Upper bound
H1: United States vs., Germany	10.37 vs., 29.03	−32.80	−4.53
H2: United Kingdom vs., Germany	6.98 vs., 29.03	−36.16	−7.94
H3: United States vs., China	10.37 vs., 20.58	−13.05	−7.39
H4: United Kingdom vs., China	6.98 vs., 20.58	−16.30	−10.91
United States vs., United Kingdom	10.37 vs., 6.98	2.12	4.66
Germany vs., China	29.03 vs., 20.58	−5.89	22.78

Finally, Hypothesis (H4) states that the board chair effect is greater among firms in China than among firms in the United Kingdom. The confidence interval for the difference between United Kingdom and Chinese firms in terms of variance explained in ROA is [−16.30, −10.91]. The confidence interval excludes 0 and consists of a range of values that all constitute fairly significant variance explained (i.e., board chairs in China explain at least 10.91 percentage points more variance in ROA than do board chairs in the United Kingdom). Thus, we find support for Hypothesis (H4).

Though we did not hypothesize any difference between board chair effects in the United States and United Kingdom, or between the effects in Germany and China, we tested the confidence intervals for these differences as well. The results show that the confidence interval for the difference between U.S. firms and U.K. firms in terms of variance explained in ROA is [2.12, 4.66]. This confidence interval reveals that the variance in firm performance explained by board chairs is larger in the U.S. firms than it is in the U.K. firms, although the range is more constrained, with the lower limit less than half, and the upper limit less than or roughly equal to, the lower limits in the confidence intervals used to test our hypotheses. Thus, while a difference seems to exist between the U.S. and U.K. board chair effects, the difference seems to be smaller than the differences we have hypothesized between these two countries and Germany and China. The confidence interval for the difference in board chair effect between German and Chinese firms is [−5.89, 22.78]. This confidence interval contains zero. This suggests that board chairs in Germany explain a similar level of variance in ROA as their counterparts in China.

In order to ensure our sample is consistent with previous research, in Table 4 we provide a comparison of the board chair effect and CEO effects as revealed in this study with those from prior studies. The prior studies have examined U.S. public firms, therefore in this stage of the analysis we examined only U.S. firms. Among the studies identified and listed in Table 4, Withers and Fitza (2017) is the only study that has estimated the board chair effect. As Table 4 (column 1) indicates, the board chair effect found in the results reported in this study (10.37%) is in line with what Withers and Fitza (2017) reported (9.2%). Withers and Fitza (2017) examined firms from 1999 to 2012, therefore we also run a variance decomposition analysis using this time frame. We also used exactly same the criteria in selecting firms for analysis, and the same method (i.e., HLM) in analyzing the data as Withers and Fitza (2017) did. Hence, the results from this specific analysis represent a replication of Withers and Fitza (2017). However, our analysis covers 6,810 firm-year observations, a sample

TABLE 4 Comparison of results with past Studies[a]

	This study, separate chair (1999–2016)	This study, separate chair (1999–2012)	This study, all CEOs (1999–2016)	Withers and Fitza (2017)	Crossland and Hambrick (2007)[b]	Mackey (2008)	Wasserman, Anand, and Nohria (2010)	Quigley and Hambrick (2015)[c]
Year effect	0.67	1.19	0.67	3.50	3.60	0.66	2.60	2.30
Industry effect	10.24	9.73	10.35	5.80	11.80	6.20	6.30	3.50
Firm effect	40.51	40.33	47.87	21.00	19.10	7.86	25.50	31.80
CEO effect	10.36	9.29	14.89	11.10	13.40	29.21	14.70	15.70
Chair effect	10.37	7.88		9.20				
N	11,937	6,810	28,382	6,290	1,464	801	10,089	7,086

[a]The ROA is the dependent variable for all studies in this comparison. All studies are based on U.S. samples.
[b]Results for their U.S. subsample.
[c]Results for the 1990–2009 sample.

slightly larger than theirs, which had 6,290 firm-year observations. As Table 4 (Column 2) indicates, the board chair effect in this analysis (7.88%) is comparable to Withers and Fitza (2017) (9.20%).

Most of the past studies on the effect of strategic leaders have focused on CEOs. These studies estimated year, industry, firm, and CEO effects without controlling for board chair effect. Hence, in order to make a comparison between the results from our study and those of past studies, we also run an HLM analysis estimating CEO effect. As Table 4 (Column 3) indicates, the CEO effect in this analysis is 14.89%. Though this CEO effect is lower than the CEO effect found by Mackey (2008) (29.21%), it is consistent with Wasserman et al. (2010) (14.7%), Crossland and Hambrick (2007) (13.4%), and Quigley and Hambrick (2015) (15.7%).

4.2 | Robustness tests

We conducted six sets of robustness tests. First, we ruled out the potential random chance element from the board chair effect. According to Fitza (2014), leadership effects, particularly the CEO effect, can be conflated with random chance (i.e., can be driven by factors outside the leaders' control). Hence, in order to determine the effect of CEOs and board chairs on firm performance, we need to rule out the random chance element, which refers to the effect on firm performance of random events that coincide with the tenure of company leaders and that cannot be attributed to other effects (i.e., year, industry, and firm effects).

We followed the methodological approach used by Fitza (2014) and Quigley and Graffin (2017) to determine the true board chair effect. More specifically, we replaced the dependent variable, ROA, with 100 randomized variables selected from a normal distribution using the same mean and *SD* of the sample for each of the four countries. Keeping everything else (i.e., year, industry, firm, CEO, and board chair) the same, we then reran the HLM analyses with the simulated data. By calculating the board chair effect based on such random variables, we can determine the random chance element of the board chair effect.

The mean board chair effect across 100 trials ranges from 0.11% in the United States to 0.28% in Germany. In fact, the results are consistent with Quigley and Graffin's (2017) findings that in the United States the random chance elements of the year, industry, firm, and CEO effect are 0.1%, 0.0%, 0.1%, and 0.1% respectively. Table 5 reports the "true" effects after ruling out the random chance elements. We subtracted the random chance elements from the initial results reported in Table 2. These results revealed no meaningful deviation from the results reported in Table 3. Therefore, we conclude that random chance is not biasing our results.

Second, we controlled for first order autocorrelation in firm performance in our HLM analysis. Given that our data contains multiple years of data for the same company, firm performance in the current year is not independent of the firm performance in the previous year. We used two approaches to address the concern of autocorrelation. First, we determined the true board chair effect by ruling out the performance effect of random chance generated from a random set of performance numbers following an auto-correlative random process. More specifically, we assume that the performance of firm j in industry k in period t, in which CEO i served as the CEO, and chair h was the board chair, is a function of the performance in period t-1 and a chance element in period t. Formally:

$$ROA_{t,hijk} = \lambda \times ROA_{t-1,hijk} + \epsilon_{t,hijk}. \quad (3)$$

Following Fitza (2017), we used $\lambda = 1$ to simulate 100 autocorrelated randomized variables. The random element ($\epsilon_{t,\ hijk}$) is drawn from normally distributed numbers. We then calculated the "random chance" element of CEO and board chair effect as the average of CEO effect and board chair effect based on the 100 trials of simulated dependent variables. Finally, we determined the "true" CEO effect and board chair effect by subtracting the random chance element from the initial results. The results of the 100 trails and the "true" effects are summarized in Table 6. As the results indicate, the "random chance" element in both the CEO effect and board chair effect are small, with the CEO effect ranging from 1.24% in the United Kingdom to 2.29% in China, and the board chair effect ranging from 0.62 in China to 1.32 in Germany. The "true" CEO effect and board chair effect are thus similar to what we reported in our main analyses.

We also controlled for the first order autocorrelation by using the approach proposed by McGahan and Porter (1997). Because our data cover multiple years for the same firm, the value of the error term ($\varepsilon_{t,\ hijk}$) in the current year is not independent of the value of the error term in the previous year ($\epsilon_{t\ -\ 1,\ hijk}$). We captured the first order serial effect with the following equation:

$$\varepsilon_{t,hijk} = \lambda \times \epsilon_{t-1,hijk} + \varpi_{t-1,hijk}. \quad (4)$$

The parameter λ captures the rate of persistence. Following the approach used by Fitza and Tihanyi (2017) and McGahan and Porter (1997), we employed Equation (4) to determine the value

TABLE 5 HLM estimations of variance: Excluding random chance

	Year effect	Industry effect	Firm effect	CEO effect	Chair effect	Residual
United States	0.61	10.22	40.45	10.28	10.25	28.19
United Kingdom	0.37	9.85	40.81	17.50	6.85	24.62
Germany	0.88	11.42	18.80	6.87	28.75	33.29
China	1.41	4.29	7.29	22.25	20.46	44.31

TABLE 6 HLM estimations of variance: Excluding autocorrelated random chance

	CEO effect based on simulated data	Chair effect based on simulated data	CEO effect excluding autocorrelated random chance	Chair effect excluding autocorrelated random chance
United States	1.35	1.09	9.01	9.28
United Kingdom	1.24	1.28	16.35	5.69
Germany	1.25	1.32	5.87	27.71
China	2.29	0.62	20.11	19.97

of λ. Note that because we needed to calculate lagged variables, we dropped the first observation for each company. Then we calculated a null model that assumes that ROA is determined only by the rate of persistence and the grand mean, and restricts the industry, firm, CEO, board chair, and year effects to zero. Finally, we used the residual of this null model as the dependent variable and ran the HLM analyses to determine the individual effects. The HLM estimation results are presented in Table 7, and are similar to those reported in Table 2.

Third, we ran an HLM analysis with a larger sample that included firms at which the CEO and board chair did not change during the period under study. The results from this analysis are summarized in Table 8, and are similar to our main results.

Fourth, we run an HLM analysis based on a sample winsorizing ROA rather than dropping outliers. Prior studies on CEO or board chair effects have used two approaches to deal with outliers. Whereas some studies chose to drop all outliers (e.g., Withers & Fitza, 2017), others winsorized the dependent variable and retained the winsorized observations (Crossland & Hambrick, 2011). In our main analysis, we followed Withers and Fitza's (2017) approach and deleted all observations above the 99th percentile and below the 1st percentile of ROA. In order to test the robustness of our results, we ran an HLM analysis based on the sample retaining the winsorized observations. The results from

TABLE 7 HLM estimations of variance: Controlling for first-order auto-correlation

	Year effect	Industry effect	Firm effect	CEO effect	Chair effect	Residual
United States	0.63	10.79	42.46	8.89	10.31	26.91
United Kingdom	0.36	9.00	43.79	16.86	7.37	22.61
Germany	1.22	5.83	25.58	8.47	30.28	28.62
China	1.03	5.23	8.48	21.25	22.54	41.47

TABLE 8 HLM estimations of variance: Including observations without leadership changes

	Year effect	Industry effect	Firm effect	CEO effect	Chair effect	Residual
United States	0.53	11.02	41.09	8.07	11.14	28.14
United Kingdom	0.36	8.70	43.02	15.86	7.39	24.67
Germany	0.60	17.28	32.83	3.27	21.58	24.43
China	1.76	7.67	10.54	21.64	18.84	39.55

this sample are presented in Table 9, with patterns and magnitudes of the results similar to those reported in Table 2.

Fifth, we evaluated possible bias resulting from different approaches to the assignment of years when there was a transition of leadership. In our main analysis, the CEOs and board chairs who stayed at the end of a fiscal year were counted in that year. We conducted a robustness test on a sample including only CEOs and board chairs who remained in office for at least 6 months. The results of this analysis are presented in Table 10. As can be seen from Table 10, this analysis yielded similar results to our main analysis.

Finally, we conducted a robustness test focusing only on nonexecutive board chairs in order to rule out differences in latitude of actions explaining our findings. Note that firms from Germany have a two-tiered board structure, and their board chairs are by definition non-executive, so there are no changes to the results for German firms in this robustness check. We reran our analysis on firms from the United States, the United Kingdom, and China excluding executive board chairs. After excluding executive chairs from our analysis, the sample sizes were 9,839 U.S. firm-year observations, 7,450 U.K. firm-year observations, and 8,312 China firm-year observations. The significant decrease in the China sample size is expected, as many board chairs in China also serve as executives. The results from this analysis are presented in Table 11, with the findings similar to our main analysis.

TABLE 9 HLM estimations of variance: Winsorized ROA

	Year effect	Industry effect	Firm effect	CEO effect	Chair effect	Residual
United States	0.56	9.90	40.93	10.91	10.15	27.56
United Kingdom	0.24	8.83	41.96	14.88	9.11	24.98
Germany	0.55	18.52	23.29	2.14	22.66	32.84
China	1.19	3.01	4.95	18.21	22.35	50.28

TABLE 10 HLM estimations of variance: Including only CEOs and board chairs who remained in office for at least 6 months

	Year effect	Industry effect	Firm effect	CEO effect	Chair effect	Residual
United States	0.65	10.24	41.76	10.56	10.08	26.72
United Kingdom	0.26	10.66	41.66	14.19	9.39	23.84
Germany	1.30	17.05	25.97	7.23	20.74	27.71
China	1.44	4.32	5.00	18.72	22.73	47.78

TABLE 11 HLM estimations of variance: Non-executive chairs only[a]

	Year effect	Industry effect	Firm effect	CEO effect	Chair effect	Residual
United States	0.63	10.46	40.96	11.14	8.13	28.69
United Kingdom	0.41	9.96	42.45	17.69	6.11	23.38
China	1.34	4.21	8.02	24.68	19.50	42.24

[a]This analysis is only viable for firms in the United States, the United Kingdom, and China, because in the supervisory boards of German firms, the board chairs by definition are not executive directors.

5 | DISCUSSION

5.1 | Contributions to theory and practice

This study contributes specifically to the nascent board chair effect literature (Withers & Fitza, 2017), as well as to the strategic leadership effect literature more broadly (e.g., Crossland & Hambrick, 2011; Quigley & Hambrick, 2015). Withers and Fitza advanced the burgeoning board chair literature (e.g., Krause, 2017; Krause, Semadeni, & Withers, 2016; Oliver et al., 2018) by providing empirical evidence that board chairs do, in fact, "matter" for firm performance. However, as CEO effect research has shown, leadership effects depend on managerial discretion (Crossland & Hambrick, 2011). By highlighting latitude of objectives, rather than latitude of action, as the salient form of discretion for the study of board chairs, we contribute new theoretical understanding in both areas of study.

This study also contributes to the comparative and international corporate governance literature (Aguilera & Jackson, 2010). As Tsui (2007, p. 1354) observed, "knowledge about management in the comparative arena or outside North America is still lacking in both quantity and quality." The recognition of this shortcoming is relevant to the field of strategic leadership, where the focus of most studies has been on U.S. firms. The need to compare the board chair effect across countries and to contextualize theories on strategic leadership is critical as scholars and practitioners seek to apply those theories around the world (Tsui, 2007; Zahra, 2007). Our comparative study shows that board chairs play an even more critical role in Germany and China than they do in the United States and United Kingdom. In this manner, we are able to provide theoretical refinement that identifies the boundaries of the existing perspectives on board chairs, and increases the precision of theoretical predictions with regard to how board chairs might impact firm strategies and performance in different institutional settings (see Boyd, Haynes, Hitt, Bergh, & Ketchen 2012).

Our study also contributes to the research on managerial discretion by suggesting that national institutions can shape the latitude of objectives that a board chair can have. Prior studies on the antecedents of managerial discretion have focused on industry level, organizational level, and individual level factors as the antecedents of managerial discretion. Similarly, prior studies have suggested that latitude of objectives is mainly affected by organizational factors such as monitoring and control mechanisms (Shen & Cho, 2005) and firm reputation (Parker et al., 2019). Though some have considered the role of nation-level institutions in shaping *latitude of action* (Crossland & Hambrick, 2007, 2011), there has been little explicit discussion of how national institutions affect *latitude of objectives*. Our study enriches the managerial discretion literature by articulating what key institutions might be relevant in determining latitude of objectives at the country level.

Our research also offers important implications for practitioners, particularly corporate governance stakeholders such as investors, analysts, and regulators. Our findings corroborate survey- and case-based research showing that board chairs' impact on firms varies by country (Bezemer, Nicholson, & Pugliese, 2018; Hoppman, Naegele, & Girod, 2019; Shekshnia, 2018). For those responsible for evaluating firm governance, knowing the degree of influence a board chair has on firm performance can significantly improve overall assessments of governance quality. Our research suggests that such stakeholders should take national context, and specifically latitude of objectives, when evaluating firm governance and board chair effectiveness.

5.2 | Limitations and future research directions

The limitations of this study offer opportunities for future research. First, our analysis enabled us to examine how much board chairs matter to firm performance compared to the other classes of effects highlighted in

prior research; yet, the available data do not allow us to isolate the specific sources of the board chair effect. For example, we are not able to identify the specific attributes or roles of the board chairs that are most critical for firm performance (Krause, 2017; Krause et al., 2016). Therefore, to develop a deeper understanding of how strategic leadership matters, future research can extend our inquiry through qualitative research of board chairs, other board members, and top executives to measure directly how board chairs interact with other directors and executives (e.g., Bezemer et al., 2018; Hoppman et al., 2019). The main sources of information could be open-ended, semi-structured interviews with directors and top executives. Such studies could provide a more nuanced understanding of how the interactions among board chairs, other non-board chair directors, and top executives might affect firm strategies and firm performance.

Another limitation is that we assume the position of board chair can be compared across national contexts. There remains an opportunity for future study in investigating potential differences in the role of the board chair around the world. Indeed, as pointed out by Aguilera and Jackson (2010), one of the key theoretical and methodological issues for comparative corporate governance studies is the non-identical nature of actors across different institutional contexts. To the extent that the formal and informal institutions shaping company stakeholders' identities, interests, and latitude of objectives differ across countries, comparative corporate governance studies always involve comparing non-identical elements to some degree. For example, while the Companies Law of the People's Republic of China stipulates that board chairs and CEOs have responsibilities in China similar to those of their counterparts in the United States, some evidence suggests that board chairs in China might be more involved in firms' strategic decision-making than U.S. board chairs are (Firth, Fung, & Rui, 2006; Kato & Long, 2006). Our robustness check excluding firms with executive board chairs from our analysis helps to alleviate concerns about this limitation, however future studies could benefit from examining the institutional differences in the board chair's role as regards strategic decision-making.

In addition, institutional environments are subject to change over time. In fact, the rise of shareholder primacy in the United States accelerated in the 1970s with the rise of Chicago School economics (Davis, 2009; Stout, 2012). Prior to this development, public corporations exhibited more of a "managerialist" approach to setting objectives (Davis, 2009). Moreover, the shareholder value maximization norm has come under increasing criticism, with even firms in the United States and the United Kingdom under pressure to serve multiple stakeholders. It is likely that board chairs in these societies may possess higher latitude of objectives in the future, as shareholder value ideology becomes less of a normative expectation. Future research thus could examine how board chairs' latitude of objectives changes over time as a result of institutional changes.

Finally, although we have provided theoretical arguments explaining why there is a larger board chair effect in China and Germany than in the United States or United Kingdom, we recognize the possibility that other non-institutional differences between these countries might also play a role in shaping the board chair effect. Scholarship on the board chair effect would benefit from a comparative study involving samples from multiple countries that controls for non-institutional differences.

6 | CONCLUSION

Researchers have long recognized that strategic leadership affects organizations in numerous ways, yet most empirical studies only focus on the CEO effect, and the one study looking at the board chair effect limited their investigation to U.S. firms. In this study, we investigate the influence of board chair heterogeneity on variance in firm performance across four countries. Our results not only corroborate previous findings that board chairs exhibit a significant effect on firm performance, but also show that the board chair effect is greater in Germany and China than in the United States or United

Kingdom. We tie these differences to institutional variance in latitude of objectives, showing how board governance changes by country, and thus so does the board chair effect.

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