

Is regulatory adoption ceremonial? Evidence from lead director appointments

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Research Summary: Regulatory bodies often wrestle with the thorny question of whether to mandate a governance practice or allow for organic adoption. While mandates afford rapid diffusion, we theorize that they also result in ceremonial adoptions. Leveraging a quasi-natural experiment, we compare adoption outcomes for a governance practice—lead director adoption—that was mandated by the NYSE but not the NASDAQ. We find that NYSE firms are more likely than NASDAQ firms to have installed a lead director as a symbolic management tactic, so their lead directors are less effectual. We also find that transient institutional investors are deceived by this symbolic management, but dedicated institutional investors are not.

Managerial Summary: Shareholders and analysts often desire to see companies introduce strict governance measures, such as proxy access and independent boards. Consequently, regulatory bodies often wrestle with the thorny issue of whether and when to mandate such practices for all companies. What they might not realize is that mandates may not work as well as they seem. Although more companies adopt reform under a mandate, they do so merely as a symbolic gesture. We look at one governance reform—appointing a lead director—finding that companies who introduce this reform as a result of a mandate appoint someone that is relatively toothless. We also find, though, that savvy investors are not actually fooled by this tactic and will trade out of firms that attempt such symbolic management.

KEY WORDS

boards of directors, corporate governance, governance reform, impression management, lead directors

1 | INTRODUCTION

In the United States, lead independent directors (sometimes called “presiding director” or simply “lead director”) have become gradually more prevalent and increasingly consequential to organizational outcomes (Penbera, 2009; PricewaterhouseCoopers, 2010). Twenty years ago, the position of lead director was virtually nonexistent, but today, most publicly traded firms in the United States have a lead or presiding director. These individuals serve as leaders of the independent directors and are endowed with unique authority, such as reviewing and approving board meeting agendas, serving as liaison between independent directors and the CEO, and chairing outside director meetings (Penbera, 2009; ViewPoints, 2011). A recent PricewaterhouseCoopers (2010) survey describes how “a new voice—the lead director—is emerging to provide leadership to the board and company as many fundamental assumptions about the role of the board … are being challenged and revisited.”

The New York Stock Exchange (NYSE) and the National Association of Securities Dealers Automated Quotations (NASDAQ) have taken different approaches to instituting requirements for having a lead director at firms listed on their exchange. In response to a series of corporate scandals, the U.S. Congress passed the Sarbanes–Oxley Act of 2002 (SOX), which forced stock exchanges to strengthen their corporate governance requirements for listed companies (Clark, 2005). In general, the NYSE and NASDAQ enacted similar rules. However, the NYSE required that a nonmanagement director must preside at executive sessions and the company must disclose the name of that lead director on its website or in its proxy statement.¹ In contrast, the NASDAQ did not enact any specific rule about appointing a lead director or making that person known to the public.²

This is an important difference because it provides a quasi-natural experiment by which to test the effectiveness of mandating a governance reform. A core tension for regulatory bodies that face pressure from shareholders for good governance concerns the extent to which a stock exchange should require governance practices that shareholders desire (Jones, Li, & Cannella, 2015). If firms adopt governance practices merely as a response to regulatory pressure, there is a possibility they will decouple adoption from substantive implementation (Bromley & Powell, 2012). In such a case, adopting new governance practices is, as our opening quote suggests, a symbolic management tactic by firms and unlikely to improve governance quality (Westphal & Zajac, 1998, 2001). In this study, we ask: are NYSE firms, who adopt lead directors in response to regulatory pressure, more likely to have done so with a view toward impression management than NASDAQ firms, who put lead directors in place without such pressure?

We cannot directly observe whether a lead director has been put in place ceremonially or if they have been appointed to implement substantive change. We can, however, view the changes that occur once a lead director has been put in place. If NYSE firms adopt lead directors as a symbolic gesture, then the lead director they put in place should be comparatively toothless. They would not want to empower a lead director who introduces real change (Lipton & Lorsch, 1992). NASDAQ firms, who put lead directors in place without any regulatory pressure, are more likely to be motivated by substantive goals (Katz & Shapiro, 1987). Lead directors at these firms should be better equipped to

¹See NYSE Listed Company Manual Section 303A.03, which states that the name of the presiding director “must be disclosed either on or through the listed company’s website or in its annual proxy statement or, if the listed company does not file an annual proxy statement, in its annual report on Form 10-K filed with the SEC. If this disclosure is made on or through the listed company’s website, the listed company must disclose that fact in its annual proxy statement or annual report, as applicable, and provide the website address. Alternatively, if the same individual is not the presiding director at every meeting, a listed company must disclose the procedure by which a presiding director is selected for each executive session.”

²See NASDAQ Equity Rule 5605(b)(2), which states simply that “Independent Directors must have regularly scheduled meetings at which only Independent Directors are present (‘executive sessions’).”

make difficult governance decisions that the CEO may not like, such as diffusing the CEO's power, controlling excess CEO compensation, and even firing the CEO.

If firms adopt a lead director for symbolic reasons, it could ultimately be bad for the organization. The symbolic gesture is not accompanied by meaningful change, so such lead directors might appease external stakeholders while not holding top managers accountable in any real way (Westphal & Graebner, 2010). Firms with more genuine motivations, on the other hand, should enjoy the benefits of improved governance. Over time, firms with good governance should perform better than those with governance structures induced by impression management (Hambrick, Av, & Zajac, 2008). We, therefore, consider the performance outcomes of firms that adopt lead directors, and investigate shareholder responses to uncover what kinds of shareholders are most likely to be deceived by symbolic management (Westphal & Bednar, 2008).

Our study of NYSE versus NASDAQ lead director adoptions offers a potentially important contribution to the literature. We answer a key question for regulators: Do stock exchange mandates work the way the exchanges intend, or do they result in little more than impression management on the part of listed firms? This is an important question because policymakers, such as the Securities and Exchange Commission (SEC), and individual stock exchanges, are constantly wrestling with the problem of whether and how to mandate specific governance reforms. For example, in recent years, possible mandates about proxy access, reporting of pay ratios, and board refreshment have garnered considerable legislative attention. It is imperative, therefore, to understand the consequences of governance mandates. Our findings imply that firms who adopt owing to regulatory pressure are more prone to decouple adoption from implementation than those who adopt without such pressure.

2 | CONCEPTUAL DEVELOPMENT

Twenty-five years ago, Lipton and Lorsch (1992, p. 70) observed that "if independent directors are to be effective, they need some form of leadership from among their own numbers." In the years following, the governance role of lead directors has taken hold of publicly traded firms in the United States. The role is demanding, with most lead directors devoting more than 25 hr a month and serving for a term of 3 years or more (PricewaterhouseCoopers, 2010). Given the paucity of academic research on lead directors, we sought to learn more about the selection and role of lead directors via a survey of knowledgeable individuals and review of practitioner recommendations.

2.1 | Structured interviews

For our survey, we contacted a dozen individuals who either serve on boards or have firsthand knowledge of boards (e.g., governance consultants). We contacted individuals via the advisory board of a highly regarded business school and at chapter meetings of the National Association of Corporate Directors. We conducted structured interviews, via email, phone, and in-person, where we asked three questions about the role of lead directors, their involvement in governance outcomes, and the selection process.

The respondents we surveyed agreed that lead directors were selected by the existing board of directors. We did not encounter any instances of firms that allowed shareholders to have a say in who serves as the lead director. We did, though, uncover some variability with respect to the way in which that selection occurred. Some boards allow independent directors to choose their lead director, whereas others make the choice at the board level, thus including the CEO and other insiders in the

process. The process is typically informal, where one person is recommended and the rest of the group votes them up or down (but generally up). For instance, one individual noted that “in most cases, the Chair will suggest someone based on board dynamics and composition,” while another suggested that ‘the CEO would definitely have a say in choosing’ who served as lead director. None of our respondents described any kind of contested election for the position.

These responses are consistent with regulatory guidance about the process by which lead directors are to be selected. The NYSE mandates that “a listed company must disclose the procedure by which a presiding director is selected,” but it provides no guidance about how to implement such a procedure (NYSE Listed Company Manual). In fact, the regulation even leaves the option open for multiple individuals to rotate through the lead director position, but that would be rare in practice. NYSE firms are mandated to disclose who has been selected as lead director and how to communicate with that person, but there is no mandate for any form of election or shareholder say on the matter. The NASDAQ leaves the issue of lead or presiding director unaddressed.

Our interviews also revealed that the lead director plays an important role in key governance outcomes. For example, one respondent of our survey noted that “the lead director would play a large role in deciding if the CEO needed replacing.” Also, “if the CEO was the chairperson of the board and there was a reason to separate the two duties, the lead director would likely be the one to lead the discussion about that to the full board.” The compensation committee seemed to be the most important determinant of the CEO’s compensation package, and one individual noted that “the lead director would serve on that committee.” This is consistent with a recent survey by PricewaterhouseCoopers (2010), where 81% of lead directors indicated that it is critical, important, or moderately important for the lead director to address CEO compensation.

2.2 | Practitioner recommendations

In a qualitative review of industry reports, we found that lead directors’ activities can be largely categorized under the banners of mentoring and monitoring. From a mentoring perspective, they build a close relationship with the CEO. For example, in a recent meeting of lead directors, one lead director noted that “we need to mentor, advise, and offer expertise to management.” An important dimension of mentoring is evaluation. Another lead director said that, “in our bylaws, the CEO evaluation is unequivocally the responsibility of the compensation committee, but when I came in as the lead director, I changed that” (ViewPoints, 2011, p. 7). Another way that lead directors can mentor CEOs is by providing recommendations about corporate strategy. The following comment reflects a common sentiment among lead directors: “the most valuable conversations that we have are around strategy and the business. He uses me as a sounding board before trying out new ideas either on the board or senior management” (ViewPoints, 2011, p. 7). Mentoring, evaluation, and guidance have long been part of the directors’ charter, and the lead director is at the forefront of those efforts.

Lead directors, though, also have a monitoring role, as they hold CEOs and other directors accountable and advocate on behalf of shareholders. One of the most important ways they do so is by ensuring transparency of information between the CEO and the board. Clair Gaudiani, a director at MBIA, notes that “the lead director also helps to raise the quality of materials received by directors before board meetings … as a result directors are able to ask better questions and meetings are more productive” (SpencerStuart, 2006). This is important because “it is the issues that were not brought to the attention of the board that worry board members” (Penbera, 2009, p. 16). Another way the lead director improves monitoring is by organizing and guiding the board. One lead director notes that “part of our job is to create a resilient board” (ViewPoints, 2016, p. 5), and another comments that “having a lead director energizes directors’ engagement and understanding of the company and the

issues it faces" (SpencerStuart, 2006). Lead directors also communicate directly with the company's largest shareholders so that they can better operate as a liaison for shareholder concerns and demands. In fact, the compliance staff of the SEC and executives from Institutional Shareholder Services (ISS) have spoken publicly about the lead director's responsibility to challenge senior management on behalf of shareholders (Penbera, 2009). Though mentoring and monitoring are both important aspects of the lead director's role, we focus mainly on the monitoring effectiveness of lead directors because we are concerned with determining whether the lead director is symbolic or substantive.

2.3 | Symbolic management

A body of research on symbolic management describes how firms can satisfy the external demands of shareholders while at the same time avoiding unwanted managerial constraints by adopting governance structures but not implementing them in ways that necessarily address shareholder concerns (Wade, Porac, & Pollock, 1997; Westphal & Zajac, 1994, 1995). A key concept underlying symbolic management is "decoupling," which describes the process through which organizations detach normative or prescriptive structures from actual operations (Bromley & Powell, 2012; Meyer & Rowan, 1977). Decoupling occurs when organizations symbolically conform to external pressures, but do not actually implement meaningful change at the operational level (Fiss & Zajac, 2006; Markoczy, Sun, Peng, Shi, & Ren, 2013).

We argue that NYSE firms, faced with regulatory pressure, are more prone to install a symbolic lead director over a substantive one than NASDAQ firms. To investigate this, we assume that if lead directors have not implemented change at their organizations then they are symbolic.³ There is ample research supporting the notion that firms usually prefer symbolic implementation of governance reforms so that they do not have to incur the costs of substantive implementation. For example, Westphal and Zajac (1994) find that firms adopt long-term incentive programs not with a view toward improving governance quality, but because the programs can help CEOs keep their board chair position and reduce the ratio of outside independent directors. Similarly, Cohen, Frazzini, and Malloy (2012) find that firms appoint independent directors who meet technical regulatory definitions of being independent but are also sympathetic to management. Given these studies, we assume that firms would generally prefer symbolic adoption because such an approach does not invite or allow substantive change in their organizations (Westphal & Zajac, 2001).

Firms often engage in symbolic activity to frame the perceptions of external constituents about observable outcomes (Gioia & Chittipeddi, 1991). Scholars long ago put forward the notion that symbolism is a central element of the sensegiving process (Pfeffer, 1981). Firms use symbolism as a means of social influence because people might look at the same observable indicator (e.g., how much the CEO gets paid) and draw different conclusions based on how they perceive the firm (Hambrick & Lovelace, 2018). Thus, firms might communicate legitimacy, transparency, and honesty by being outwardly compliant with rules and norms, which colors perceptions about other observable indicators, such as firm performance or executive compensation. The goal of symbolic actions is typically to direct the cognitions of external constituents to create positive affect about the organization, which influences their sensemaking about observable characteristics of the firm.

³We expect that few, if any, symbolic lead directors will engage in our dependent variables of interest (e.g., dismiss the CEO), but it is possible that some substantive lead directors might not engage in our dependent variables, even though they could. The former would result in a Type I error (false positive) and the latter yields a Type II error (false negative). Our approach is conservative in the sense that we allow for some possibility of a Type II error in order to virtually eliminate the possibility of the more egregious Type I error.

2.4 | Regulatory pressure and symbolic adoption

In this study, we argue that the regulatory pressure of the NYSE is likely to lead to a symbolic response from firms. The NYSE mandate could precipitate symbolic management as firms acquiesce to the mandate (Oliver, 1991; Weber, Davis, & Lounsbury, 2009). Weber et al. (2009, p. 1327) argue from this perspective as they observe that “practices resulting from coercive pressures are more likely to reflect ceremonial compliance because motivations, skills and resources for making the practices thrive do not become distributed in a local setting.” Similarly, Simmons, Dobbin, and Garrett (2006) describe mechanisms of policy diffusion, questioning the extent to which actors actually support policies they implemented under coercion. Consistent with these ideas, when NYSE firms appoint a lead director, they could demonstrate their willingness to comply while actually failing to empower their lead directors to enforce difficult governance decisions that shareholders desire but that may not be in the interest of the CEO.

The institutional literature supports the notion that different reasons for adoption are important in determining whether the adoption is effective or ineffective (Meyer & Rowan, 1977; Tolbert & Zucker, 1983). Kostova and Roth (2002, p. 220) confirm this, observing that “as institutional theory suggests, ceremonial adoption is likely to result from … strong pressure to adopt the practice coming from the legitimating environment.” In other words, different reasons for adoption (i.e., symbolic or substantive) derive from the extent to which firms’ motivations for adopting a governance practice are externally driven. Faced with external regulatory coercion from the stock exchange, NYSE firms have a unique opportunity to garner organizational legitimacy by complying with the mandate (DiMaggio & Powell, 1983). The boards of NYSE firms are more likely to rush into adopting lead director positions when faced with increased regulatory pressure, which serves the interests of all board members because failure to conform to regulatory mandates can harm board members’ reputations. The NYSE mandate enables NYSE firms that put a lead director in place to demonstrate that they are good corporate citizens.

Firms listed on the NYSE and NASDAQ exchanges share different attributes. The NYSE generally hosts established, blue-chip companies, whereas NASDAQ companies tend to be fast-growing and often technology-oriented (in our empirical analysis, we control for many of these differences). External stakeholders tend to expect established firms (i.e., NYSE firms) to adhere to regulatory pressures, and deviance from regulatory requirements can be severely punished by investors (Aguilera, Judge, & Terjesen, 2018). In contrast, given that NASDAQ firms tend to be young, entrepreneurially minded firms, which may have higher corporate governance discretion, they could have a degree of freedom about whether to (and why they) adopt new governance practices. Therefore, the characteristics of NYSE and NASDAQ firms also influence whether they will adopt new practices as a symbolic management tactic.

3 | HYPOTHESES

When firms engage in symbolic, versus substantive, adoptions of lead directors, there are likely to be important differences in their governance outcomes. We investigate three outcomes that work together to provide observable indicators of ceremonial versus substantive lead director adoption.

3.1 | Lead director adoption and governance quality

Perhaps the most difficult decision a board of directors has to make is whether and when to fire the CEO. Termination of employment is the last resort that boards use to discipline CEOs for poor

performance (Brickley, 2003). The anticipated result of replacing a CEO is improved perception of the organizational image and “renewed confidence in the organizations’ future” (Daily & Dalton, 1995, p. 394). As a result, shareholders often desire a change at the top when a firm is underperforming, and they react positively when such firms replace their CEO (Davidson, Worrell, & Cheng, 1990; Friedman & Singh, 1989). For underperforming firms, eliminating the CEO is often a difficult but necessary step for firms to take (Parrino, 1997).

Lead directors could play a central role in implementing this important decision. A survey by PricewaterhouseCoopers (2010) shows that 71% of survey respondents indicate that lead director involvement in CEO succession decisions is critical. Since lead directors at NYSE firms were put in place in response to regulatory pressure, they are likely to be less powerful and more beholden to the incumbent CEO than their NASDAQ counterparts (Hermalin & Weisbach, 1998). When CEOs at NYSE firms come under fire for poor performance, the lead director could even serve as a confederate for the CEO, defending him or her against outside pressure for a new face at the top (Weisbach, 1988). NASDAQ lead directors, on the other hand, are more likely to be empowered with the ability to ensure that the CEO is held accountable for firm performance. Stated formally:

Hypothesis 1 (H1) *Underperforming NYSE firms that adopt a lead director are less likely to dismiss the CEO than underperforming NASDAQ firms that adopt a lead director.*

When firms are underperforming, shareholders are also likely to demand that the role of the board chair be separated from the CEO. Shareholders generally desire separation because it diffuses power and signals the CEO's willingness to succumb to external governance in the face of their poor performance. Separation of these roles can lead to less-entrenched CEOs (Mallette & Fowler, 1992) and improved alignment with shareholder risk preferences (Castañer & Kavadis, 2013; Pollock, Fischer, & Wade, 2002). Thus, when firms are performing below their industry peers, shareholders often push for CEO–board chair separation (Boyd, 1995). This could be a useful remedy, for instance, if a single individual on the board has become too powerful and other voices are not being heard, or if the CEO is using his or her position of power to control and filter the information that the board receives. Consequently, Krause and Semadeni (2013) find that, when a firm is performing poorly, firms should separate the CEO and board chair positions as a way to turn things around. Relatedly, separating power on the board can help underperforming firms by providing critical reviews of the CEO's strategies and focusing board discussions on shareholder concerns (Lorsch & MacIver, 1989).

If the firm adopted a lead director as a symbolic management tactic to comply with regulatory pressure, they would have specifically chosen a person who would not upset the established power structure. Consistent with this view, lead directors at NYSE firms might defend a unity-of-command power structure even in the face of poor performance, rallying the independent directors in opposition to role separation. In contrast, NASDAQ lead directors are empowered and thus would be central to the process of looking for ways to improve the firm's performance (Lublin, 2012). These individuals would help ensure that the board gives ample consideration to shareholders' desire for separating the roles in view of the company's poor performance. These arguments suggest the following:

Hypothesis 2 (H2) *Underperforming NYSE firms that adopt a lead director are less likely to separate the CEO and board chair than underperforming NASDAQ firms that adopt a lead director.*

Shareholders also have a rich history of expressing concern about excess executive compensation, and especially when the firm is performing below industry peers. There are few issues that garner as many headlines in the business press as the outsized compensation of CEOs (Hoskisson, Castleton, & Withers, 2009). Nonetheless, CEO compensation continues to escalate, as does shareholder unease (Ertimur, Ferri, & Muslu, 2011). As a result, shareholders are increasingly demanding a “say on pay” to have their voice heard about controlling excess CEO compensation (Krause, Whitler, & Semandeni, 2014).

In addition to lining the pockets of the CEO at the expense of the firm's shareholders, excess CEO pay introduces a host of negative externalities, such as increased likelihood of fraud, excessive risk-taking, and reduced value creation (Datta, Iskandar-Datta, & Raman, 2001; Shi, Connelly, & Sanders, 2016). Excess CEO compensation reflects whether a CEO is paid more than warranted for a given level of performance (accounting for important organizational and CEO factors) (Fong, Misanaygi, & Tosi, 2010). Excess CEO compensation is about deviations in CEO pay that result in overpayment, where the CEO is unnecessarily appropriating rent (Wade, O'Reilly III, & Pollock, 2006). Providing excess CEO compensation is particularly egregious when the firm is underperforming as the CEO fails to generate reasonable financial returns to shareholders.

NYSE firms, who adopt lead directors under regulatory pressure, want to show the world they are complying, but may not want their lead directors to change executive compensation (Zajac & Westphal, 1995). As such, they are more likely to appoint a lead director with the understanding that the individual will not go out of their way to rein in CEO compensation, even when the firm is not performing well. Lead directors at NASDAQ firms, on the other hand, can be expected to represent shareholder concerns by constraining excess CEO compensation when it is not warranted (Lorsch, 2012). Exercising a voice that draws the CEO's compensation package into question is like taking money out of the pockets of the most powerful person in the organization, which could have negative consequences for directors that raise the issue (Stern & Westphal, 2010). Substantively appointed lead directors could help counter directors' fear of retribution for reducing excess pay for CEOs of underperforming firms by organizing and unifying the independent directors so that they operate as one voice. Therefore, we hypothesize the following:

Hypothesis 3 (H3) *Underperforming NYSE firms that adopt a lead director provide their CEOs with greater excess compensation than underperforming NASDAQ firms that adopt a lead director.*

3.2 | Early adopters

Our prior hypotheses examined three consequences of substantive versus symbolic governance for underperforming firms, but we may also observe differences between substantive versus symbolic governance based on the time of adoption. Tolbert and Zucker (1983) describe a two-stage model of adoption motivations, where early adopters are substantive and late adopters are symbolic. Although this difference holds for practices that are not mandated (e.g., NASDAQ), it does not hold for those that are mandated (e.g., NYSE) (Westphal, Gulati, & Shortell, 1997). Adoption time, therefore, could serve as an alternative test of our hypotheses.

For early adopters, we expect a strong contrast between NYSE and NASDAQ lead director adoptions. Since NASDAQ firms do not have regulatory pressure to adopt lead directors, we expect NASDAQ early adopters of the practice to be consistent with Tolbert and Zucker's (1983) two-stage adoption model. Specifically, NASDAQ early adopters should have the most technical adoption

motivations. For NYSE firms, though, the practice starts out as legitimate. If an NYSE firm is going to take on a lead director as a symbolic action, they would want to do it right away to maximize the benefits of signaling legitimacy (MacLean & Behnam, 2010).

For late adopters, the contrast between NYSE and NASDAQ lead directors should be less profound. Late NASDAQ adopters have some substantive motivation because they are not being regulated into the practice, but these firms also might begin to be more susceptible to ceremonial activity in response to growing normative and social pressures (Jones et al., 2015), which is consistent with the two-stage model proposed by Tolbert and Zucker (1983). Late NYSE adopters could also have mixed motivations. It could be they are taking a more calculated approach despite the consequences of not immediately complying with external demands, or it could be they are simply trying to hold off as long as possible, and when they do finally adopt, they will merely do something ceremonial (Goodstein, 1994). Therefore, the contrast between NYSE and NASDAQ firms should be greatest among early adopters and may not hold among late adopters. This leads us to the following set of hypotheses:

Hypothesis 4 (H4) *Early-adopting NYSE firms are less likely to (a) dismiss their CEO, (b) separate the CEO and board chair, and (c) provide their CEOs with greater excess compensation than NASDAQ early adopters.*

3.3 | CEO–lead director relative standing

Another way to test our hypotheses about substantive versus symbolic governance outcomes is to consider the lead director's status, or relative standing, compared to the CEO (Hambrick & Cannella, 1993; Pearce & Zahra, 1991; Shen & Cannella, 2002). When lead directors have a lower relative standing than the CEO, we might not see much difference between NYSE or NASDAQ lead directors because neither substantive nor symbolic lead directors will be able to get much done (Shen, 2003). In contrast, when lead directors have a higher relative standing compared to the CEO, then the substantive lead director will be able to effectuate change, whereas the symbolic lead director will not leverage their standing.

Thus, when lead directors have higher status than the CEO, we should see the greatest difference between substantive (NASDAQ) and ceremonial (NYSE) lead directors. Lead directors with a lower relative standing will be beholden to the CEO (Coles, Daniel, & Naveen, 2014), so even if they were substantive lead director appointments, they may find themselves unable or unwilling to implement the changes we investigate. Thus, we do not expect to observe significant differences in adoption outcomes for NYSE and NASDAQ lead directors when the lead director has lower status than the CEO. In contrast, lead directors who enjoy a higher relative standing compared to the CEO have more power to implement the kind of changes they desire. Here, we expect substantive lead directors of high relative standing to leverage their power, whereas symbolic lead directors of high relative standing may forgo their influence because they are not interested in stringent monitoring. Therefore, the differences between NYSE and NASDAQ lead directors will be strongest when the lead director has a higher relative standing than the CEO. Stated formally:

Hypothesis 5 (H5) *NYSE firms with high-status lead directors (relative to the CEO) are less likely to (a) dismiss the CEO, (b) separate the CEO and board chair, and (c) provide their CEOs with excess compensation than NASDAQ firms with high-status lead directors.*

3.4 | Performance and shareholder response

In the hypotheses above, we investigate CEO-related governance outcomes—firing the CEO, separating power on the board, and controlling excess CEO compensation—where symbolic and substantive lead directors are likely to make different decisions. In addition, however, if firms take on a lead director as a ceremonial action, that individual is also less likely to have a positive impact on the firm's bottom line (Fiss & Zajac, 2006). Consistent with Tolbert and Zucker's (1983) description of adoption motivations, those who adopt a practice as a symbolic action do not realize efficiency gains because the adoption does not bring about substantive change. Therefore, we argue that NASDAQ lead directors will positively influence firms' operational performance (not just shareholder perceptions as reflected in the stock price) as compared to NYSE lead directors.

This may seem counterintuitive because we argue in Hypothesis 3 that substantive lead directors rein in excess CEO pay. CEO pay and firm performance are positively related to each other, so it is nontrivial to argue that lead directors reduce the former but increase the latter. However, doing so is tantamount to suggesting that substantive lead directors make organizations more efficient. NASDAQ lead directors, put in place without regulatory pressure, will be more likely than NYSE lead directors to engage in a wide range of activities that lead to more effective organizations. For instance, they could challenge CEOs' proposed agendas, introduce agenda items of their own, be more forceful in steering discussions at board meetings, ask harder questions about firm strategies, hold the CEO more accountable for his or her decisions, or require better information from the CEO and other insiders (Tugge, Schnatterly, & Johnson, 2010). Such factors could have important consequences for a firm's operational performance.

NYSE firms that bring on lead directors do so because they have to, so their lead directors will be less likely to influence operational outcomes (Markoczy et al., 2013). These lead directors may view their position as perfunctory and thus comparatively inconsequential to firm-level decision-making. They may be more concerned with meeting regulatory obligations than with understanding and affecting firm strategies. One of the biggest challenges with the NYSE listing standards and Sarbanes–Oxley is that the board's time is already oversubscribed. As a result, NYSE lead directors provide little added value to the firm's operations because they do not introduce substantive changes to firm strategies and board processes. These arguments lead us to the following hypothesis:

Hypothesis 6 (H6) *Following adoption of a lead director, NYSE firms have lower gains in operating performance than NASDAQ firms.*

If firms are installing lead directors as a ceremonial action, but these individuals do not improve governance quality or bring about practical change, it is natural to ask: are shareholders fooled by this tactic? We argue that it depends largely on the type of shareholder. To consider this possibility, we examine the influence of lead director adoption on institutional ownership, who have played an important role in shareholder activism and influencing managerial decisions (Gillan & Starks, 2007). There is, however, heterogeneity among institutional investors, wherein some are more informed than others (Bushee, 2004).

While there are a host of institutional investors that follow broad indices, we focus on two main types of institutional investors that reside at the extreme: dedicated institutional investors (DIIs) and transient institutional investors (TIIs) (Connelly, Shi, Hoskisson, & Koka, in press; Connelly, Tihaenyi, Ketchen, Carnes, & Ferrier, 2017). DIIs concentrate their shareholdings into a small number of firms that they hold for an extended period of time. DIIs are impervious to short-term earnings reports and instead are concerned with a firm's ability to compete over time (Bushee, 2001). TIIs are the opposite: they have diverse shareholdings in a large number of firms, frequently trade in and out of

stocks, and are highly sensitive to short-term results (Bushee, 2001). We do not develop a specific hypothesis about TIIs, because we expect to see no appreciable difference in how TIIs respond to lead director adoption at NYSE versus NASDAQ firms.

DII_s are familiar enough with firms in which they invest to form opinions about whether the firm has engaged in substantive or symbolic management (Connelly et al., 2010b). Given their sizable, long-term investments, high-quality institutional investors tend to monitor managerial behaviors. In NYSE firms, where lead director adoption could simply be a symbolic management gesture, DII_s should be able to detect this behavior. One important way they could do so is by investigating who it is that has been installed as the lead director (Zajac & Westphal, 1996). If that person has a long history with the CEO, does not sit on any other boards (making them beholden to their director role at the focal firm), has a track record of voting compliance, or does not frequently appear in the board minutes, such factors would be indicators that the appointment is symbolic.

If DII_s believe that managers have appointed a lead director as a ceremonial action, they would be concerned about the long-term implications and would likely exit because they know the appointed lead director will not improve governance quality or fairly represent the DII_s' interests on the board (Bushee, 2004). This is especially so because DII_s frequently engage in activism that could run contrary to CEO's goals and objectives (David, Hitt, & Gimeno, 2001). DII_s would favor a utilitarian lead director, because that person would help DII_s implement their strategic agendas. Therefore, we argue that DII_s will respond differently to NYSE lead director adoption, which is more likely to be symbolic, than to NASDAQ lead director adoption.

Hypothesis 7 (H7) *Following adoption of a lead director, NYSE firms have greater decreases in dedicated institutional investor holdings than NASDAQ firms.*

4 | METHOD

4.1 | Data description

Our sample starts with the BoardEx database during the period 2000–2014, which we match against firm-year observations available in ExecuComp and Compustat. We use BoardEx to identify lead director adoption—the first time that a “lead director,” “lead independent director,” or “presiding director” appears. ExecuComp provides compensation data on executives at U.S. publicly-traded companies. BoardEx provides equally comprehensive coverage about executives' current and past associations with other persons in the BoardEx universe through professional activities (e.g., employment or board directorships), social organizations (e.g., charitable foundations), education (e.g., colleges, graduate schools), and other activities (e.g., club memberships).

Overlaying these databases yielded a total of 1,263 NYSE and 897 NASDAQ firms with complete data, of which 819 NYSE and 436 NASDAQ firms adopted lead directors during our sampling window. Table 1 shows the number of adoptions and accumulative adoptions by NYSE and NASDAQ firms annually. Figure 1 provides a graphic illustration of the frequency in which NYSE and NASDAQ firms adopted a lead director and the percentage of adoptions among them.

As shown by Table 1 and Figure 1, the adoption rate is higher for NYSE firms than NASDAQ firms. For NYSE firms, adoption was concentrated in the years immediately following the NYSE mandate, but NASDAQ adoptions were more spread out, peaking in 2004 and 2009. Figure 1 also shows that a handful of firms adopted a lead director before the SEC approved NYSE and NASDAQ corporate governance standards in 2003. Since NYSE firms did not face regulatory pressure prior to

TABLE 1 Lead director adoption among sample firms

Year	NYSE		NASDAQ					
	Number of adoptions	Number of firms	Accumulative number of adoptions	Accumulative % of adoptions	Number of adoptions	Number of firms	Accumulative number of adoptions	Accumulative % of adoptions
2000	37	642	37	6%	13	268	13	5%
2001	13	738	50	7%	6	323	19	6%
2002	31	761	81	11%	13	344	32	9%
2003	102	859	183	21%	50	452	82	18%
2004	113	905	296	33%	53	499	135	27%
2005	95	916	391	43%	43	529	178	34%
2006	100	961	491	51%	40	584	218	37%
2007	82	1,017	573	56%	45	721	263	36%
2008	78	980	651	66%	47	692	310	45%
2009	54	992	705	71%	53	683	363	53%
2010	64	983	769	78%	49	677	412	61%
2011	56	983	825	84%	31	665	443	67%
2012	43	977	868	89%	36	643	479	74%
2013	38	957	906	95%	32	620	511	82%
2014	40	924	946	102% ^a	29	580	540	93%

Note. NASDAQ = National Association of Securities Dealers Automated Quotations; NYSE = New York Stock Exchange.

^a Accumulative % of adoptions greater than 100% because the number of sample firms varies by year.

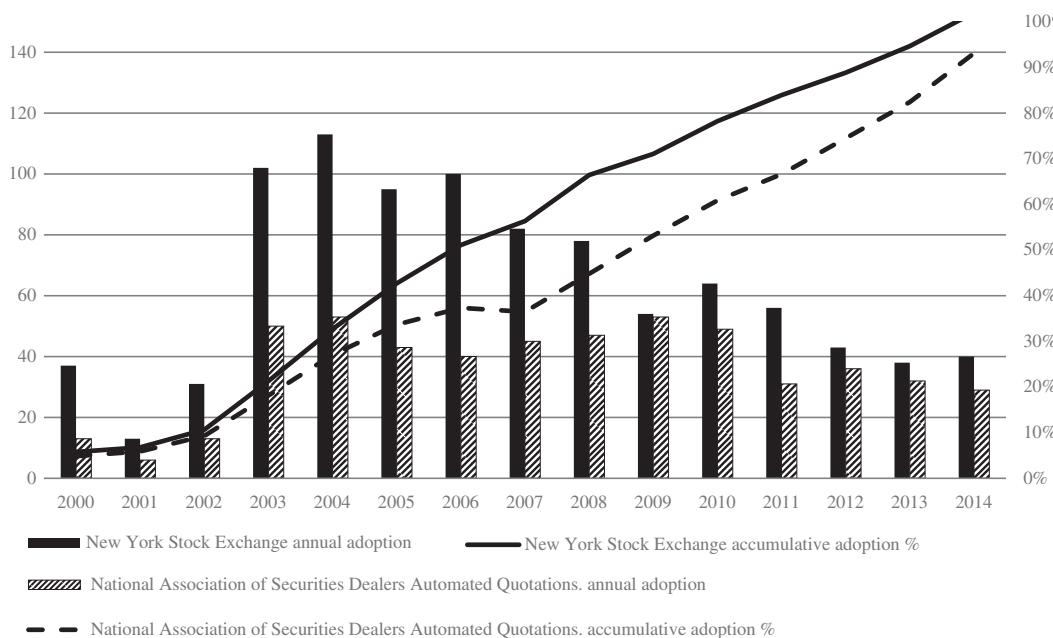


FIGURE 1 Trends in lead director adoption

2003, we exclude all firms that adopted lead directors prior to 2003 (results are similar if we include them as non-mandated adoptions). We are interested in examining the influence of adopting a lead director under differing conditions, so we exclude firms that did not adopt lead directors during our sample time frame. We measure our independent variable and control variables at time $t - 1$ and our dependent variables at time t .

4.2 | Dependent variables

Our first three hypotheses investigate three dependent variables where we expect substantive and symbolic lead directors to have different consequences after adoption. The first of these is *CEO dismissal*. We follow existing research to identify CEO dismissal (Huson, Parrino, & Starks, 2001; Jenter & Kanaan, 2015; Wiersema & Zhang, 2011). We classify dismissals based on firm press releases and news reports to identify forced turnovers from the larger set of all CEO turnovers.

The second is *CEO duality*, which receives a value of “1” if a CEO is also Chair of the Board and “0” otherwise in a year (Krause & Semadeni, 2013).

The third is *excess CEO compensation*. To measure excess CEO compensation, we first use an ordinary least squares (OLS) regression to determine the expected CEO total compensation using the following predictors: the natural logarithm of total assets, the percent of CEO equity ownership, CEO age, CEO tenure, return on assets (ROA), two-digit SIC industry dummy variables, and year dummy variables (O’Reilly, Main, & Crystal, 1988). This yields a predictive value for CEO compensation that is an indicator of what the CEO should be paid based on performance and accounting for our selected predictors. We then use the difference between a CEO’s actual pay and predicted pay to measure excess CEO compensation, with larger residuals reflecting higher excess CEO compensation (Fong et al., 2010).

We use *operating performance*, measured as ROA, instead of market performance, in testing Hypothesis 6 because the latter can be influenced by managers’ impression management (Westphal &

Zajac, 1998). This is important because we theorize that lead directors will actually make firms more efficient, not that the market will perceive them to do so.

The last dependent variable is related to market perceptions as reflected by changes in shareholdings. We examine both *DII* and *TII ownership*. To categorize institutional investors, we followed Bushee (2001), who used factor and cluster analysis to classify institutional investors based on portfolio diversification (i.e., breadth), portfolio turnover, and momentum trading (i.e., earnings sensitivity). Institutional investors are classified as DII, TII, or quasi-indexer (QIX) based on the three factors described above. DIIs have concentrated portfolio holdings, low turnover, and are not sensitive to current earnings reports. TIIs have diversified portfolios, high portfolio turnover, and are highly sensitive to earnings. We control for QIXs, who lie somewhere in between in terms of these three factors. *DII, TII, QIX ownership* is the average quarterly level of DII, TII, and QIX ownership percentage for each year in our panel (Shi, Connelly, & Hoskisson, 2017). Our ownership data ends in 2013, which was the final year for which the data were available.

4.3 | Independent variable and moderators

Our main predictor is the interaction of two dummy variables. We compare NYSE adopters of lead directors to NASDAQ adopters of lead directors, so the first dummy variable receives a value of “1” for NYSE adopters and “0” for NASDAQ adopters. The second is a postadoption dummy variable that is “1” for the 5 years subsequent to (including) lead director adoption or until the end of the sampling window and “0” for the 5 years prior to adoption. We obtain similar results if we use either a shorter (4-year) or longer (6-year) window. We use 5 years because it is long enough to show time-variant heterogeneity but not so long that the lead director adoption becomes inconsequential (Certo & Semadeni, 2006).

To test our first three hypotheses, we need to identify whether a firm has *underperformed industry peers*. We consider that a firm had poor performance if its ROA is below industry average ROA (based on two-digit SIC codes) for a given year. We focus on underperforming firms in this study because the differences between symbolic and substantive governance should be most prevalent among this subset of firms. When firms are performing well, there is less need for substantive governance outcomes. Our theory is mainly about underperforming firms, but we also tested our models using all firms and results are substantively the same.

To test Hypothesis 4, we need to identify early and late adopters. The NYSE required its listed companies to disclose the lead directors' names in 2003, so not surprisingly NYSE adoption is especially concentrated in 2003 and 2004. Thus, we define *early adopters* as firms that adopted in 2003 and 2004. We select the first 2 years as the cutoff for “early adopters” because it captures an early minority of adopting firms, but not so many that the practice had become entirely commonplace. This is also consistent with Westphal and Zajac (1994), who use the first 2 years to define early adopters (c.f., Rogers, 1995). About one third of our final sample of firms are early adopters.

In Hypothesis 5 we consider *CEO-lead director relative standing*. We use three components to measure this moderator. The first component pertains to social capital, and we use the number of board directorships that the CEO and lead director hold to capture their social capital (Tian, Halebian, & Rajagopalan, 2011). The second component is related to human capital, and we use educational level to measure their human capital. The last component is their relative tenure on the board. A CEO that originally appointed a director to the board has more power over them than if they were not part of the group that originally appointed them to the board. We standardize these three components and create an index to measure CEO-lead director relative standing.

4.4 | Control variables

We include a range of organizational characteristics as control variables. We control for *firm size* using the natural logarithm of market value and *firm performance* using ROA. We control for *debt ratio* (measured as the ratio of the sum of long-term debt and debt in current liabilities to total assets) and *cash-holding ratio* (measured as the ratio of cash and short-term investments to total assets) because these two variables may be related to the amount of resources under CEOs' control, which in turn influence CEO-related outcomes. We control for *R&D intensity* because CEOs of firms with high R&D intensity have a high level of information asymmetry with shareholders (Gomez-Mejia, Larraza-Kintana, & Makri, 2003) and have more decision discretion. R&D intensity is measured as the ratio of R&D expenditure to total sales revenues. We control for *sales growth rate* because CEOs are more likely to be perceived positively when firms grow rapidly. We control for *international sales ratio* (measured as the ratio of foreign sales revenues to total sales revenues) because firm governance practices can be shaped by the degree of international diversification (Hitt, Tihanyi, Miller, & Connelly, 2006).

Since we investigate adoption of a governance reform, we also include a number of governance control variables. For example, we control for *analyst coverage* because security analysts may influence governance practices (Chen, Harford, & Lin, 2015). We measure analyst coverage as the natural logarithm of the number of analysts covering a firm plus one. We use the natural log because the variable is skewed. Research has shown that different kinds of institutional investors exert different influence on firm governance quality (Connelly et al., 2010a), so we control for *DII ownership*, *TII ownership*, and *QIX ownership*. We control for *CEO tenure* (in years) and *CEO equity ownership* (percentage of shares outstanding) because these variables are related to CEO power, which in turn could influence our dependent variables (Finkelstein, 1992). We control for *board size* and *board independence* because these variables may be related to governance quality.

Since we investigate multiple dependent variables, we include each dependent variable as a predictor in models that are not predicting that variable (except CEO dismissal, which is endogenous to our other outcomes). In addition, we include *year* fixed-effects in all our regressions.

4.5 | Endogeneity

Studies in strategic management have been increasingly scrutinized for potential biases associated with endogeneity. We implement the following procedures to help mitigate this bias. First, we use firm fixed-effects regressions to test our hypotheses. This approach allows us to estimate within-firm changes in our dependent variables and compare NYSE to NASDAQ adopters, while controlling for time-invariant firm heterogeneity. Following Shi, Hoskisson, and Zhang (2017), we estimate the following fixed-effects difference-in-differences regression:

$$Y_{it} = \alpha_t + \delta_i + \beta \times \text{NYSE firm}_i \times \text{post-adoption period}_t + \gamma \times X_{i,t-1} + \varepsilon_{it}, \quad (1)$$

where i indexes firm and t indexes time. Y_{it} is the dependent variable of interest. α_t and δ_i are year and firm fixed-effects, respectively. Firm fixed-effects control for bias from time-invariant firm heterogeneity between NYSE firms and NASDAQ firms. We include $X_{i,t-1}$ as a vector of control variables to rule out potential confounding effects. ε_{it} is an error term. Because the specification includes year and firm fixed-effects, it is not necessary to include the noninteracted NYSE and postadoption period dummy variables (Abadie & Dermisi, 2008; Low, 2009). The estimate of the effect of lead director adoption on outcome variables is β . In simple terms, this regression compares the change in

the dependent variable for a NYSE firm before and after a lead director adoption with the change that occurs for a NASDAQ adopter over the same period.

Second, we use a Heckman treatment model to address time-variant heterogeneity that could potentially influence firms' choices of listing on the NYSE or NASDAQ and thus introduce selection bias (Heckman, 1979; Wooldridge, 2010). Since we are comparing NYSE versus NASDAQ firms, the key selection issue is whether the firm is listed on the NYSE or NASDAQ. For example, if firms chose to list on the NASDAQ because of less stringent governance rules, it could potentially confound our comparison of NYSE and NASDAQ firms. In a first-stage probit regression, we use the following variables as predictors of whether a firm is listed on the NYSE as opposed to NASDAQ: firm size (log assets), firm age, R&D intensity, the number of firms listed on the NYSE located in the same state as focal firms. We also control for industry and year fixed effects.

The number of firms listed on the NYSE in each state serves as our instrument. Prior research (Rao, Davis, & Ward, 2000) has shown that firms' choices of stock exchanges can be influenced by their geographically close peer firms. Thus, firms located in the same state may affect whether a firm is listed on the NYSE or NASDAQ. At the same time, this instrument should not exert a direct influence on our dependent variables, making it an appropriate instrument. In unreported results, we find that the coefficient estimate of our instrument is positive and statistically significant ($\beta = 0.064$, $p = .028$) in the first-stage probit regression. Based on the probit regression results, we calculate the treatment correction (Lennox, Francis, & Wang, 2012) and include it in the second-stage fixed-effects logistic or OLS regressions, which helps mitigate bias from time-variant heterogeneity between NYSE and NASDAQ adopters.

5 | RESULTS

5.1 | Primary analyses

CEO dismissal and CEO duality are binary variables, so we use firm fixed-effects logistic regressions to test hypotheses with these two variables as dependent variables.⁴ We test other hypotheses using firm fixed-effects OLS regressions. Since we have data with repeated observations on firms, we use clustered standard errors by firms (Petersen, 2009). Table 2 shows descriptive statistics for all variables included in our analyses.

Models 1–3 of Table 3 are used to test Hypotheses 1–3. Hypothesis 1 predicts that underperforming NYSE firms that adopted lead directors are less likely to dismiss CEOs than underperforming NASDAQ firms that adopted lead directors after adopting lead directors. In Model 1, the coefficient estimate of *NYSE × Postadoption period* is negative ($\beta = -0.766$, $p = .025$) for the poor performance subgroup, supporting Hypothesis 1. In terms of magnitude, the change in the odds of CEO dismissal from the pre- to the postadoption period is 54% lower for underperforming NYSE adopters than for underperforming NASDAQ adopters. In Model 2, the coefficient estimate of *NYSE × Postadoption period* is negative but statistically not significant ($\beta = -0.159$, $p = .686$). This suggests that outperforming NYSE and outperforming NASDAQ adopters may not differ from each other in terms of the change in CEO dismissal likelihood.

Hypothesis 2 predicts that underperforming NYSE adopters are less likely to separate the CEO and board chair positions than underperforming NASDAQ adopters after adopting lead directors. In

⁴Given that firm fixed-effects logistic regressions can only include firms with time-invariant dependent variables, we also test Hypotheses 1–2 using firm fixed-effects OLS regressions. Results are largely the same.

TABLE 2 Descriptive statistics

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
1 CEO dismissal	0.04	0.20	1.00																						
2 CEO duality	0.66	0.47	-0.11	1.00																					
3 Excess CEO pay	0.03	0.65	-0.04	0.11	1.00																				
4 Firm performance	0.09	0.09	-0.08	0.00	0.10	1.00																			
5 DII ownership	0.03	0.06	0.00	0.07	0.01	-0.01	1.00																		
6 TII ownership	0.16	0.12	-0.02	0.02	0.14	0.08	0.19	1.00																	
7 NYSE firm	0.67	0.47	-0.03	0.14	0.09	0.03	0.09	-0.03	1.00																
8 Postadoption period	0.58	0.49	0.03	-0.04	-0.01	-0.02	-0.20	-0.11	0.01	1.00															
9 Industry adjusted ROA	0.01	0.08	-0.06	0.00	0.02	0.71	-0.01	0.04	0.02	-0.04	1.00														
10 Early adoption	0.30	0.46	0.01	0.05	0.01	-0.03	0.18	0.07	0.04	0.14	-0.03	1.00													
11 CEO+lead director relative standing	-0.02	1.65	-0.02	0.01	-0.02	-0.04	-0.03	0.00	-0.06	0.01	-0.01	0.01	1.00												
12 Firm size	7.79	1.57	-0.03	0.09	0.08	0.23	0.05	-0.15	0.29	0.02	0.23	0.03	-0.14	1.00											
13 Debt ratio	0.22	0.18	-0.01	0.09	0.01	-0.06	0.09	0.00	0.25	0.01	-0.09	0.05	-0.02	0.07	1.00										
14 Cash-holding ratio	0.15	0.16	0.02	-0.06	0.05	0.06	-0.03	0.08	-0.37	0.01	0.03	-0.03	0.01	-0.12	-0.37	1.00									
15 R&D intensity	0.04	0.08	0.04	-0.06	0.04	-0.17	0.02	0.04	-0.36	-0.01	-0.22	0.06	-0.02	-0.04	-0.17	0.52	1.00								
16 Sales growth rate	0.11	0.37	-0.02	0.02	0.00	0.04	0.01	0.04	-0.06	-0.05	0.08	0.04	0.01	0.05	-0.02	0.04	0.09	1.00							
17 International sales ratio	0.21	0.25	0.02	-0.04	0.01	0.02	-0.02	-0.01	-0.08	0.05	-0.05	0.04	-0.09	0.09	-0.14	0.23	0.35	-0.01	1.00						
18 Analyst coverage	2.15	0.90	-0.04	0.03	0.11	0.12	0.12	0.22	0.07	0.07	0.13	-0.03	-0.06	0.49	-0.02	-0.01	0.03	0.02	0.00	1.00					
19 Quasi-index institutional ownership	0.42	0.26	-0.01	0.02	0.07	0.06	-0.12	0.29	0.04	0.07	0.04	0.02	0.00	0.01	-0.04	-0.02	-0.01	0.04	0.35	1.00					
20 CEO tenure	7.06	6.82	-0.03	0.18	0.00	-0.03	-0.04	-0.12	-0.04	-0.02	-0.05	0.28	-0.11	-0.04	0.09	0.04	0.01	-0.04	-0.03	-0.01	1.00				
21 CEO equity ownership	0.02	0.05	-0.02	0.11	0.01	0.04	-0.05	-0.05	-0.11	-0.05	0.02	-0.05	0.14	-0.18	-0.10	0.10	-0.04	0.02	-0.10	-0.12	-0.08	0.35	1.00		
22 Board size	12.31	3.45	0.00	0.09	0.04	-0.02	0.04	-0.11	0.29	-0.04	0.00	0.13	-0.08	0.57	0.15	-0.28	-0.16	-0.05	-0.03	0.23	0.05	-0.14	-0.20	1.00	
23 Board independence	0.67	0.12	0.00	-0.01	0.02	-0.06	-0.10	-0.13	-0.01	0.18	-0.05	-0.22	-0.04	-0.11	-0.02	-0.04	-0.09	-0.02	-0.03	-0.04	-0.18	-0.07	-0.07	1.00	

Note. Absolute value of correlations greater than .02 statistically significant at $p < .05$ level. DII = dedicated institutional investors; NYSE = New York Stock Exchange; ROA = return on assets; TII = transient institutional investors.

TABLE 3 Firm fixed-effects regressions for lead director adoption

Variables	Model 1 Poor CEO dismissal	Model 2 Good CEO dismissal	Model 3 Poor CEO duality	Model 4 Good CEO duality	Model 5 Poor CEO excess pay	Model 6 Good CEO excess pay	Model 7 ROA	Model 8 DII	Model 9 TII
NYSE × Postadoption period	-0.766 [0.025]	-0.159 [0.686]	0.472 [0.016]	0.368 [0.038]	0.026 [0.544]	0.003 [0.910]	-0.007 [0.021]	-0.006 [0.014]	0.009 [0.030]
Firm size	-0.216 [0.210]	-0.180 [0.526]	0.315 [0.010]	0.313 [0.059]	0.085 [0.020]	0.124 [0.000]	0.026 [0.000]	-0.004 [0.026]	0.002 [0.643]
Firm performance	-3.291 [0.153]	-1.684 [0.579]	5.026 [0.001]	1.366 [0.310]	0.044 [0.867]	-0.407 [0.110]		-0.008 [0.618]	0.128 [0.000]
Debt ratio	0.572 [0.612]	2.439 [0.091]	2.752 [0.000]	0.820 [0.215]	-0.346 [0.032]	-0.376 [0.001]	0.016 [0.208]	0.007 [0.505]	0.041 [0.010]
Cash-holding ratio	-0.192 [0.877]	-0.804 [0.589]	1.688 [0.045]	-1.081 [0.149]	0.501 [0.002]	0.223 [0.111]	0.045 [0.003]	0.007 [0.486]	0.041 [0.016]
R&D intensity	-4.840 [0.091]	7.673 [0.572]	3.383 [0.118]	-1.731 [0.671]	-1.508 [0.018]	-2.750 [0.001]	-0.360 [0.000]	0.014 [0.711]	-0.295 [0.000]
Sales growth rate	-0.061 [0.806]	-0.332 [0.616]	0.056 [0.656]	0.480 [0.166]	-0.027 [0.211]	0.034 [0.528]	0.004 [0.437]	-0.000 [0.847]	0.005 [0.081]
International sales ratio	-0.169 [0.880]	1.120 [0.517]	0.283 [0.666]	-3.154 [0.000]	0.183 [0.321]	0.191 [0.251]	0.027 [0.039]	-0.013 [0.315]	-0.008 [0.679]
Analyst coverage	-0.150 [0.570]	0.667 [0.062]	0.024 [0.894]	-0.458 [0.013]	-0.029 [0.433]	-0.089 [0.006]	-0.004 [0.136]	0.015 [0.000]	0.031 [0.000]
Dedicated institutional ownership	2.188 [0.332]	-3.829 [0.146]	-2.231 [0.104]	4.825 [0.000]	-0.091 [0.731]	0.247 [0.275]	-0.015 [0.455]		
Transient institutional ownership	0.335 [0.813]	-0.811 [0.646]	-0.214 [0.821]	-1.420 [0.097]	0.503 [0.004]	0.567 [0.000]	0.085 [0.000]		
Quasi-index institutional ownership	0.664 [0.459]	-0.331 [0.738]	0.063 [0.907]	0.779 [0.125]	0.108 [0.276]	0.148 [0.078]	-0.030 [0.000]		
CEO tenure	0.134 [0.000]	0.150 [0.000]	0.081 [0.000]	0.060 [0.000]	-0.001 [0.760]	-0.002 [0.465]	-0.000 [0.163]	-0.000 [0.107]	-0.001 [0.010]
CEO equity ownership	-4.683 [0.284]	-1.992 [0.600]	3.209 [0.328]	8.853 [0.001]	2.238 [0.000]	1.790 [0.000]	-0.020 [0.607]	0.021 [0.357]	-0.096 [0.031]
Board size	0.033 [0.586]	-0.061 [0.440]	-0.057 [0.137]	-0.043 [0.247]	0.001 [0.912]	0.008 [0.273]	-0.001 [0.046]	0.000 [0.711]	-0.003 [0.000]
Board independence	2.998 [0.016]	-2.932 [0.076]	0.556 [0.518]	1.787 [0.021]	0.338 [0.026]	0.346 [0.006]	0.009 [0.432]	0.017 [0.084]	-0.058 [0.001]
CEO duality	0.257 [0.277]	0.144 [0.598]			0.032 [0.318]	0.089 [0.001]	0.000 [0.978]	0.002 [0.419]	-0.001 [0.735]
Excess CEO pay	-0.388 [0.008]	-0.078 [0.695]	0.121 [0.225]	0.318 [0.003]			0.005 [0.002]	0.000 [0.722]	0.011 [0.000]
Treatment correction	0.435 [0.755]	-4.603 [0.146]	2.125 [0.042]	-0.204 [0.882]	0.791 [0.000]	1.391 [0.000]	0.035 [0.106]	0.005 [0.711]	0.159 [0.000]
Constant					-1.032	-1.158	-0.106	0.080	0.297

TABLE 3 (Continued)

Variables	Model 1 Poor CEO dismissal	Model 2 Good CEO dismissal	Model 3 Poor CEO duality	Model 4 Good CEO duality	Model 5 Poor CEO excess pay	Model 6 Good CEO excess pay	Model 7 ROA	Model 8 DII	Model 9 TII
					[0.002]	[0.000]	[0.000]	[0.000]	[0.000]
Observations	1,094	885	1,965	2,454	3,955	4,886	8,862	8,591	8,591
Pseudo R-squared	0.114	0.130	0.116	0.0913					
Log-likelihood	-293.2	-228.7	-690.9	-881.2					
Within R-squared					0.0412	0.0435	0.139	0.329	0.391
Between R-squared					0.0183	0.0158	0.101	0.119	0.0253
Overall R-squared					0.0166	0.0183	0.0952	0.247	0.0888

Note. Firm and year fixed-effects are controlled for in all models. *p*-values are in brackets. Standard errors clustered by firms. Two-tailed tests. DII = dedicated institutional investors; NYSE = New York Stock Exchange; ROA = return on assets; TII = transient institutional investors.

Model 3, the coefficient estimate of *NYSE × Postadoption period* is positive and statistically significant ($\beta = 0.472, p = .016$), supporting Hypothesis 2. The change in the odds of keeping CEO duality from the preadoption period to the postadoption period is 60% higher for underperforming NYSE adopters than for underperforming NASDAQ adopters. In Model 4, the coefficient estimate of *NYSE × Postadoption period* is also positive and statistically significant ($\beta = 0.368, p = .038$) for the good performance subgroup. However, the magnitude is smaller: the change in the odds of keeping CEO duality from the preadoption period to the postadoption period is 44% higher for NYSE adopters than for NASDAQ adopters.

Hypothesis 3 predicts that CEOs of underperforming NYSE adopters experience a greater increase in excess compensation from the pre- to postadoption period than CEOs of underperforming NASDAQ adopters. In Model 5, the coefficient estimate of *NYSE × Postadoption period* is positive but not significant ($\beta = 0.026, p = .544$) for the poor performance subgroup, failing to support Hypothesis 3. In Model 6, the coefficient estimate of the interaction term is also positive but not significant ($\beta = 0.003, p = .910$) for the good performance subgroup.

Models 1–6 of Table 4 are used to test Hypotheses 4a–c. The dependent variable of Models 1 and 2 is CEO dismissal. The interaction between NYSE and postadoption period is not statistically significant for early (Model 1) or late adopters (Model 2). The dependent variable of Models 3 and 4 is CEO duality. The interaction term is statistically significant ($p < .001$) for early adopters (Model 3) but not statistically significant for late adopters ($p = .148$) (Model 4). The dependent variable of Models 5 and 6 is excess CEO compensation. The interaction term is statistically significant ($p = .030$) for early adopters (Model 5) but statistically not significant for late adopters ($p = .737$) (Model 6). Results in Table 4 appear to suggest that our findings in Table 3 are driven mainly by differences between NYSE and NASDAQ early adopters.

Models 7–12 of Table 4 are used to test Hypotheses 5a–c. The dependent variable of Models 7 and 8 is CEO dismissal. The interaction of *NYSE × Postadoption period* is statistically not significant when lead directors have lower relative standing than CEOs ($p = .582$) (Model 7) but statistically significant when lead directors have higher relative standing ($p = .016$) (Model 8). The dependent variable of Models 9 and 10 is CEO duality. The interaction of *NYSE × Postadoption period* is statistically not significant ($p = .467$) in the presence of low lead director relative standing (Model 9) but statistically significant ($p < .001$) in the presence of high lead director relative standing (Model 10). The dependent variable of Models 11 and 12 is excess CEO compensation. The

TABLE 4 Fixed effects subgroup analyses based on early adopters and CEO–lead director relative standing

Variable	NYSE × Postadoption period	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12
		Early CEO dismissal	Late	Early CEO duality	Late	Early Excess CEO pay	Late	Low CEO dismissal	High	Low CEO duality	High	Low Excess CEO pay	High
Firm size	-0.727	-0.275	1.097	0.207	0.122	-0.010	-0.185	-0.787	0.125	0.720	-0.027	0.052	[0.141]
Firm performance	-0.405	-0.057	0.630	0.230	0.130	0.081	-0.230	-0.178	0.345	0.343	0.122	0.078	[0.006]
Debt ratio	-1.973	-1.573	-0.186	3.299	-0.219	-0.287	-0.330	-3.376	1.232	3.551	-0.077	-0.377	[0.067]
Cash-holding ratio	0.359	[0.336]	[0.898]	[0.000]	[0.445]	[0.098]	[0.859]	[0.083]	[0.234]	[0.001]	[0.734]	[0.001]	[0.734]
R&D intensity	2.184	0.679	0.745	1.278	-0.565	-0.320	2.196	0.352	2.373	0.427	-0.368	-0.455	[0.000]
Sales growth rate	-2.277	2.108	1.610	-1.208	-2.888	-1.353	-1.869	0.168	-2.504	6.515	-1.962	-1.920	[0.000]
International sales ratio	0.542	[0.421]	[0.542]	[0.578]	[0.000]	[0.009]	[0.633]	[0.951]	[0.243]	[0.008]	[0.913]	0.351	0.275
Analyst coverage	0.637	[0.169]	[0.285]	0.085	0.167	-0.037	0.014	-0.184	0.014	0.198	0.202	-0.026	-0.016
Dedicated institutional ownership	-1.202	-0.380	2.195	1.675	0.143	-0.092	0.133	-3.283	-0.775	-1.168	0.152	0.210	[0.107]
Transient institutional ownership	1.364	-1.536	-1.269	-0.709	0.557	0.559	-1.240	-0.076	-1.009	-0.864	0.548	0.628	[0.145]
Quasi-index institutional ownership	[0.644]	[0.849]	[0.192]	[0.102]	[0.621]	[0.646]	[0.953]	[0.251]	[0.040]	[0.792]	[0.124]	[0.000]	[0.000]
	[0.460]	[0.191]	[0.260]	[0.299]	[0.004]	[0.000]	[0.390]	[0.957]	[0.216]	[0.290]	[0.000]	0.181	0.129
	-0.118	-0.425	-0.061	0.727	0.116	0.197	-0.071	-0.652	0.618	0.468	[0.054]	[0.133]	[0.054]

TABLE 4 (Continued)

Variable	Model 1			Model 2			Model 3			Model 4			Model 5			Model 6			Model 7			Model 8			Model 9			Model 10			Model 11		
	Early	Late	CEO dismissal	Early	Late	CEO duality	Excess	Late	CEO pay	Early	Excess	CEO pay	Low	High	CEO dismissal	Low	High	CEO	Low	High	CEO	duality	Low	High	CEO	Excess	CEO pay	Low	High	Model 12	High		
CEO tenure	0.100 [0.001]	0.142 [0.000]	0.050 [0.003]	0.081 [0.000]	0.000 [0.903]	-0.002 [0.497]	0.087 [0.000]	0.206 [0.000]	0.084 [0.000]	0.059 [0.637]	0.001 [0.637]	-0.003 [0.389]																					
CEO equity ownership	-4.977 [0.237]	-2.521 [0.452]	7.694 [0.033]	6.919 [0.001]	1.026 [0.246]	2.170 [0.000]	-2.496 [0.420]	-6.883 [0.139]	2.697 [0.211]	16.901 [0.000]	1.984 [0.000]	1.839 [0.001]																					
Board size	0.000 [0.997]	0.012 [0.813]	-0.144 [0.004]	0.013 [0.662]	0.010 [0.423]	0.003 [0.618]	-0.060 [0.367]	0.080 [0.166]	-0.074 [0.038]	-0.074 [0.188]	-0.045 [0.578]	0.005 [0.441]																					
Board independence	2.640 [0.171]	0.201 [0.846]	0.552 [0.664]	2.336 [0.000]	0.303 [0.234]	0.321 [0.002]	-0.001 [0.999]	1.539 [0.229]	2.036 [0.007]	0.904 [0.226]	0.348 [0.012]	0.347 [0.011]																					
CEO duality	0.709 [0.013]	-0.024 [0.903]	0.021 [0.903]	0.091 [0.584]	0.021 [0.000]	0.091 [0.000]	0.402 [0.092]	0.018 [0.937]	0.402 [0.092]	0.018 [0.937]	0.079 [0.008]	0.057 [0.038]																					
Excess CEO pay	-0.420 [0.015]	-0.261 [0.053]	-0.012 [0.915]	0.284 [0.001]	-0.234 [0.116]	-0.234 [0.031]	-0.310 [0.031]	0.260 [0.163]	0.133 [0.163]																								
Treatment correction	0.235 [0.893]	-1.207 [0.352]	0.134 [0.909]	0.639 [0.396]	1.113 [0.000]	0.854 [0.752]	-0.473 [0.529]	-0.921 [0.952]	0.053 [0.496]	0.735 [0.000]	1.253 [0.000]	0.650 [0.000]																					
Constant					-1.210 [0.005]	-0.907 [0.000]				-1.367 [0.000]	-1.367 [0.000]	-0.671 [0.007]																					
Observations	720	1,834	1,549	3,681	2,595	6,246	1,208	1,346	2,529	2,701	4,290	4,551																					
Pseudo R-squared	0.137	0.0803	0.186	0.0746			0.0937	0.132	0.0990	0.0949																							
Log-likelihood	-191.1	-456	-499	-1,381			-303	-332.3	-938.6	-963																							
Within R-squared					0.0440	0.0487																											
Between R-squared					0.00476	0.0320																											
Overall R-squared					0.00319	0.0273																											

Note. Firm and year fixed-effects are controlled for in all models. *p*-values are in brackets. Standard errors clustered by firms. Two-tailed tests. NYSE = New York Stock Exchange.

interaction of *NYSE × Postadoption period* is statistically not significant in both subgroups. Results from Models 7–12 of Table 4 clearly show that our findings only hold for the subgroup of high lead director relative standing.

Models 7–8 of Table 3 present results used to test Hypotheses 6 and 7. Hypothesis 6 predicts that NYSE adopters have lower gains in operating performance than NASDAQ adopters. The coefficient estimate of *NYSE × Postadoption period* in Model 7 of Table 3 is negative and statistically significant ($\beta = -0.007, p = .021$), supporting Hypothesis 6. In terms of magnitude, the change in firm performance from the preadoption period to the postadoption period is 0.7% lower for NYSE adopters than for NASDAQ adopters, translating into a 7.8% drop of average ROA ($0.007/0.09 = 0.078$). Given the mostly significant results of Hypotheses 4 and 5, it is interesting that these results are even stronger among early adopters and lead directors not appointed by CEOs.

Hypothesis 7 predicts that NYSE adopters have a greater decrease in DII holdings than NASDAQ adopters. The coefficient estimate of *NYSE × Postadoption period* is negative and statistically significant in Model 8 of Table 3 ($\beta = -0.006, p = .014$), supporting Hypothesis 7. In terms of magnitude, the change in DII ownership from the preadoption period to the postadoption period is 0.6% lower for NYSE adopters than for NASDAQ adopters, translating into a 15% drop of average DII ownership ($0.006/0.04 = 0.15$).

5.2 | Supplementary analyses

5.2.1 | CEO certification

We also test our theory in another empirical context where the NYSE and NASDAQ impose clearly different regulatory pressures for governance reform: CEO certification of financial statements (Zhang & Wiersema, 2009). According to NYSE Section 303A(12)(a), the NYSE requires the CEO of each listed company to certify to the NYSE each year that he or she is not aware of any violation by the company of the NYSE's corporate governance listing standards. This certification needs to be disclosed in the company's annual report or Form 10-K. However, the NASDAQ does not have a CEO certification requirement for its listed firms. This provides another quasi-natural experiment to examine the extent to which regulatory pressure yields symbolic management (Bhattacharya, Groznik, & Haslem, 2007).

The results in this alternative context (unreported but available) are largely the same. We find support for Hypotheses 1, 3, 6, and 7. We were unable to test the moderating hypotheses (Hypotheses 4 and 5) in this alternative context because there was insufficient variation in adoption time among NYSE firms and whether lead directors are appointed by CEOs (a key component used to calculate relative standing) is specific to the lead director adoption context.

5.2.2 | Adoption during a crisis

Lead directors appointed during crises are more likely to take an effective and substantial role in corporate governance (PricewaterhouseCoopers, 2010). Put differently, when adoption occurs during a crisis, regulatory pressure is less likely to result in symbolic adoption and there should be no substantial difference between NYSE and NASDAQ lead directors. We consider a firm to be in crisis if they have been sued by investors or been found to violate securities laws or engage in accounting malpractice in the year prior to adoption. This is a different scenario from underperforming firms. When firms have experienced a crisis, such as financial misconduct, they come under intense scrutiny by analysts and investors. Board members often take substantive actions to address the problem. Poor performance is different. Firms may engage in symbolic actions to alleviate short-term performance pressure from the market (Westphal & Zajac, 1994).

To investigate firms in crisis, we conduct subgroup analyses to examine whether the implications of NYSE and NASDAQ adoption depends on whether the firm violated securities laws or engaged in accounting malpractice. We find there is no substantial difference between NYSE and NASDAQ lead directors in terms of CEO dismissal, CEO duality, excess CEO pay, and ROA when adoption occurred during a crisis. In contrast, we find substantial differences between NYSE and NASDAQ adopters if adoption did not occur during a crisis. This is a nontrivial post-hoc result because it appears to show that the findings of our study do not apply during times of crisis.

5.2.3 | TII response

We do not raise formal hypotheses about TII holdings. Nevertheless, we examine them in Model 9 of Table 3. The coefficient estimate of *NYSE × Postadoption period* is positive and statistically significant ($\beta = 0.009$, $p = .030$), indicating that NYSE adopters, compared with NASDAQ adopters, experience an increase in TII ownership in the postadoption period. This suggests TIIs trade based on firms' symbolic actions and are deceived by impression management.

6 | DISCUSSION

We expect the results presented above could have important implications for research and practice. Lead directors play an increasingly important role in corporate governance and have attracted considerable media and managerial attention. Lead directors have taken on progressively more important activities in recent years and are essential to understanding board involvement in firm governance, strategy, and investor relations. Results from this study suggest that the appointment of a lead director does not always result in improved board effectiveness. If firms adopt lead directors primarily for symbolic management, it may not give rise to desirable corporate governance and other key firm-level outcomes.

6.1 | Implications for research

One contribution of this article is that it uncovers the potentially negative implications of external coercive pressure from regulatory bodies who seek to improve firm governance quality. The main motivation behind governance reforms is that they should give rise to better governance quality because policymakers design reforms to restrain managers' power and intensify monitoring of potentially opportunistic managers (Cohen et al., 2012; Duchin, Matsusaka, & Ozbas, 2010). The core tension for regulatory bodies that face pressure from shareholders for good governance practices in firms in which they invest surrounds the problem of whether the exchange should mandate governance practices that shareholders desire. Whereas prior research has focused on firms' responses to regulatory mandates (Jones et al., 2015), ours leverages a quasi-natural experiment to investigate the merits of mandating versus not mandating a governance reform. If firms adopt governance practices merely as a response to coercive pressure, they may decouple adoption from substantive implementation, thus defeating the purpose of the reform (Bromley & Powell, 2012).

We also contribute to research on symbolic management. Whereas prior studies have focused mainly on either verbal communication (Elsbach, 1994) or policy implementation (Westphal & Zajac, 2001) as symbolic actions, we consider how specific individuals may be put in place ceremonially. This is an important extension, because symbolically appointed lead directors continually reify organizations' values. Unlike language, which is temporary, or policy implementation, which is lifeless, lead directors give a face to firms' responses to shareholder demands for accountability, making

them a particularly potent symbolic tool. In addition, while prior research has examined symbolic responses to a threat (Marcus & Goodman, 1991) and proactive symbolic activity (Westphal & Zajac, 1998), we extend the body of empirical literature to symbolic responses to a directive. This is important because it shifts the emphasis from responding to *normative* or *mimetic* pressure to how firms symbolically respond to *coercive* pressure.

6.2 | Implications for practice

We expect our study to be of interest to a wide range of audiences. Managers may feel threatened by the requirement to appoint a lead director or by the fact that many of the firms around them are appointing lead directors (Hambrick & Jackson, 2000). They may feel that adopting this governance reform is tantamount to introducing an unwanted measure of control. One response would be to appoint a symbolic lead director. Our study would caution against such an approach, because it essentially deprives lead directors of their power and prevents them from implementing governance strategies that could ultimately be helpful to their organizations. Although CEOs and top managers may not wish to relinquish any measure of authority or autonomy, most governance reforms are designed to improve organizations and protect against problems, so ceremonial adoption could be counterproductive.

Policymakers should also take heed, because mandating governance reform can have negative externalities that ultimately cause more harm than good (Krause et al., 2014). If legislators impose rules that mandate governance reform, they could actually be making it more difficult for investors to discern between those firms that are symbolically adopting the reform and those that are substantively adopting it. Investors, too, should be aware that not all governance reform implementations are created equal. If investors are deceived by a firm's ceremonial adoption of a governance reform, they may find themselves investing in a firm that is making promises of improved corporate governance, but without much intention to follow through on their tough talk.

6.3 | Limitations

This study has some limitations, which can point to areas for future study. One limitation of our work pertains to generalizability. We did not directly measure adoption motivations, but instead focused on adoption outcomes to infer adoption motivations. Thus, we cannot be completely sure that we have fully distinguished between symbolic versus substantive actions. Survey instruments may be an appropriate tool to help overcome this problem by focusing more specifically on different adoption motivations. For example, Kennedy and Fiss (2009) use survey data to examine TQM adoption motivations during different adoption periods. Future research might use a similar approach to better understand the motivations of firms who adopt a governance reform under regulatory, normative, and mimetic pressures. Survey instruments may also be useful for teasing out subtle differences between the mentoring and monitoring role that lead directors perform. For example, lead directors that actively serve as mentors could find there is less need for monitoring because of the relationship they have built with the CEO.

It is possible that a substitutionary effect could occur among the governance practices of both NYSE and NASDAQ firms. For example, firms could appoint a lead director with a view toward not separating the CEO from the board chair position (SpencerStuart, 2006). A few empirical characteristics of our study help address this potential concern. Foremost, in our research context NYSE and NASDAQ firms face similar regulatory pressure to adopt governance practices, and we do not expect vast differences where regulatory pressures are the same (e.g., diverse board functionality,

independent auditing committees). Also, the substitutionary problem is abated in part by our sample because we examine only firms that have adopted lead directors. The substitution effect would be more pronounced if we were also investigating firms that had not adopted lead directors. Furthermore, we have instituted ownership controls that should account for differences in shareholder pressure to adopt or not adopt governance practices.

Also, following the approach of prior research (Westphal & Zajac, 1998), we have sought to identify lead director appointments that are ceremonial by investigating actions (Hypotheses 1–3) that would be characteristic of a firm with a symbolically appointed lead director, but there is some possibility that the actions we investigate could themselves be symbolic. For example, the board could have symbolically installed a lead director and subsequently fired the CEO, also as a symbolic gesture. Future research can obtain more accurate measures of adoption motivations as opposed to using proxies such as ours.

In addition, the converse of the above could also be a problem. Although observing the actions we investigate is likely to suggest that lead director appointments are substantive, the absence of these actions might not always mean that an appointment is symbolic. We believe this is a conservative approach because we allow for some possibility of Type II error in order to virtually eliminate the possibility of the more egregious Type I error (i.e., falsely labeling a ceremonial lead director as being substantive). A companion study might take a different approach to observing and coding in order to dig deeper into the effects of substantive lead directors.

6.4 | Conclusion

Lead directors have recently become a permanent and prevalent part of the U.S. corporate governance landscape, but firms appear to be taking different approaches. The NYSE stock exchange has responded to investor concerns by requiring its listed firms to adopt lead directors, but the NASDAQ imposed no such requirement. Our findings suggest that NYSE firms who appoint lead directors could be doing so mainly for impression management. Ceremonial adoption might fool some investors some of the time, but it is ultimately detrimental to firms. We hope our initial foray into understanding lead director adoption motivations with and without regulatory pressure opens the door to future research on lead directors and the various pressures for governance reform adoption.

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