WHY DO SOME INSIDER CEOS MAKE MORE STRATEGIC CHANGES THAN OTHERS?

THE IMPACT OF PRIOR BOARD EXPERIENCE ON NEW CEO INSIDERNESS

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ABSTRACT

Research summary: This study draws attention to the impact of prior board experiences on the variation in new insider CEOs' degree of "insiderness" in terms of commitment to the status quo and their propensity to make strategic change. We theorize and find that new insider CEOs' prior board experience at the focal firm has a negative effect on strategic change, whereas their prior board experience at other firms has a positive effect. Moreover, the positive effect of prior board experience at other firms is stronger (weaker) for new insider CEOs who have less (more) prior board experience at the focal firm. Our study contributes to upper echelons theory and research on new CEOs, and has important implications for organizational practices regarding CEO succession and strategic change.

Managerial summary: Although new insider CEOs tend to make less strategic changes than new outsider CEOs, some of them do make more than others. Our study focuses on new insider CEOs' prior board experiences to explain the difference in their tendency to make strategic change. We find that new insider CEOs who have greater prior experience on the focal firm's board make less strategic changes, whereas those who have greater prior experience on the boards of other firms make more strategic changes. Moreover, our analysis shows that new insider CEOs who have both a high level of board experience at other firms and a low level of board experience at the focal firm make the most strategic changes.

INTRODUCTION

Prior research generally classifies new CEOs into insiders and outsiders based on whether they were full-time executives of the focal firms before taking over as CEOs (Finkelstein, Hambrick, & Cannella, 2009). Compared with outsider CEOs, insider CEOs have long been proposed to be less likely to initiate strategic change because their previous organizational experience as a full-time executive of the focal firm has limited their strategic perspectives and elevated their psychological commitment to the firm's current strategy (Kesner & Sebora, 1994). Consistent with this proposition, many studies have found that insider CEOs tend to have a stronger commitment to the status quo and initiate fewer strategic changes than outsider CEOs (Datta & Rajagopalan, 1998; Zhang & Rajagopalan, 2004, 2010; see Finkelstein *et al*., 2009 for review).

Meanwhile, a few studies suggest that insider CEOs vary in their propensity to initiate strategic change. For example, Bigley and Wiersema (2002) draw attention to the impact of insider CEOs' heir apparent experience and suggest that insider CEOs who served as the heirs apparent to their predecessors are more likely to be committed to their predecessors' strategies than are insider CEOs who do not have this experience. Shen and Cannella (2002a) separate insider CEOs into contenders and followers based on whether they are appointed following their predecessors' dismissal or retirement, and they propose that contenders are less likely to be psychologically committed to their predecessors' strategies than followers. These studies suggest that there can be significant variation in new insider CEOs' degree of "insiderness" in terms of commitment to the status quo.

Because a large majority of new CEOs are insiders who are promoted from within the firm (Finkelstein et al., 2009; Zhu & Shen, 2016), it is important to further investigate why some new insider CEOs make more strategic changes than others so that we can better understand the factors that influence the variation in their degree of insiderness. Our study intends to contribute to this research by introducing new insider CEOs' prior experience on corporate boards as such a factor. Because directors are directly involved in a firm's strategic decision making process (Boivie, Bednar, Aguilera, & Andrus, 2016), serving on corporate boards can significantly influence one's strategic perspective through the mechanisms of learning by observing and learning by doing, as indicated by research on board interlocks that focuses on the effect of executives' *current* external board ties (Beckman & Haunschild, 2002; Geletkanycz & Boyd, 2011). Only recently have scholars started to investigate the strategic implications of an executive's *prior* board experience gained at other firms before he or she becomes the CEO (Zhu & Chen, 2015; Zhu & Shen, 2016).

We propose that prior board experience is especially important for new insider CEOs because it can influence not only their strategic perspectives but also their psychological commitment to the current strategy, and consequently impact their degree of insiderness. We further distinguish new insider CEOs' prior board experience into prior board experience at the focal firm and prior board experience at other firms, and theorize that these experiences have opposite effects on new insider CEOs' degree of insiderness and propensity to initiate strategic change. Specifically, prior board experience at the focal firm elevates their degree of insiderness and decreases their propensity to initiate strategic change by limiting their strategic perspectives and strengthening their psychological commitment to the current strategy. In contrast, prior board experience at other firms weakens their degree of insiderness and increases their propensity to initiate strategic change by broadening their strategic perspectives and weakening their psychological commitment to the current strategy. We further predict that these experiences have an interaction effect such that the positive effect of new insider CEOs' prior board experience at other firms on strategic change is stronger (weaker) when they have less (more) prior board experience at the focal firm. Using data from a sample of the S&P 1500 firms from 2001 to 2012, we obtain results supportive of our theoretical predictions while controlling for the effects of new insider CEOs' current board ties and many other factors that may influence strategic change.

In addition to advancing the understanding of why some new insider CEOs make more strategic changes than others by drawing attention to the variation in new insider CEOs' degree of insiderness, our study introduces an important yet understudied aspect of new CEOs' experiences – prior board experience. Existing studies have primarily used new CEOs' organizational experience as full-time employees of the focal firm to categorize them into insiders and outsiders, and have examined how this and other full-time job experiences (such as heir apparent experience and career variety) influence their strategic decisions (Bigley & Wiersema, 2002; Crossland, Zyung, Hiller, & Hambrick, 2014). Our study shows that prior board experience can also impact new insider CEOs' strategic decisions. Moreover, we theorize and find that prior board experience at the focal firm and prior board experience at other firms have opposite effects on new insider

CEOs' propensity to initiate strategic change. Our theory and supportive findings have important implications for future research and organizational practices regarding the selection of new insider CEOs and strategic change.

THEORY AND HYPOTHESES

Although research on strategic change by new CEOs has not yet paid much attention to their prior board experience, the literature on board interlocks has long recognized the impact of executives' current external board ties on firm strategies (Beckman & Haunschild, 2002; Geletkanycz & Hambrick, 1997). It suggests two primary mechanisms through which executives' current external board ties influence firm strategies (Geletkanycz & Boyd, 2011). First, these ties serve as conduits of information, which enable executives to be aware of environmental changes, new organizational practices, and strategic initiatives at other firms (Geletkanycz & Hambrick, 1997). Second, they provide learning opportunities, which enable executives to gain strategic insights by being directly engaged in and observing the development of strategies at other firms where they serve as outside directors (Beckman & Haunschild, 2002). Extant research shows that when top executives have more external board ties, their firms are less likely to conform to industry norms (Geletkanycz & Hambrick, 1997) and more likely to adopt the strategies of the firms where they serve as outside directors (Zhu & Chen, 2015).

Building on and extending the literature of board interlocks, we argue that *prior* board experience can also influence executives' strategic decisions. Upper echelons theory and research suggest that executives' prior experiences can have a profound impact on their cognitive breath and strategic perspectives (Crossland et al., 2014; Finkelstein et al., 2009; Hambrick, 2007). Because serving as corporate directors enables executives to observe and engage in the strategic decision-making processes directly (Deutsch, Keil, & Laamanen, 2011; Geletkanycz & Boyd, 2011), we contend that prior board experience can not only significantly impact new CEOs' strategic perspectives through the mechanisms of learning by observing and learning by doing but also affect psychological commitment to the focal firm's current strategy, and consequently influence their commitment to the status quo.

Unlike research on board interlocks focuses only on executives' *current* board appointments at other firms, we focus on and distinguish two types of *prior* board experience – prior board experience at focal firm and prior board experience at other firms. Prior board experience at the focal firm refers to a new CEO's experience of serving on the board of the focal firm before becoming the CEO, whereas prior board experience at other firms refers to a new CEO's experience of serving on the board of other firms before becoming the CEO. Below we explain in detail how these two types of prior board experiences differentially impact new insider CEOs' degree of insiderness in terms of commitment to the status quo and consequently their propensity to initiate strategic change.

Prior board experience at the focal firm

We expect prior board experience at the focal firm to increase new insider CEOs' degree of insiderness in terms of commitment to the status quo and decrease their tendency to initiate strategic change for two reasons. First, prior board experience at the focal firm makes a new insider CEO's strategic perspective more consistent with the current strategy because it puts the new insider CEO under intense influence of the prior CEO and other board members. Prior focal board experience allows a new insider CEO to be directly involved in the focal firm's strategic decision-making process before becoming the CEO, which provides him or her opportunities to learn about the prior CEO and other board members' views of the external environment and the firm's competitive position relative to other firms in the industry (Zhang & Rajagopalan, 2004, 2010).

Different views might have been expressed and discussed during board meetings, and a consensus was likely reached in the end regarding what the board collectively believed to be the most appropriate strategy for the firm. Such an experience makes the new insider CEO more likely to share the board's collective belief about the relationship between the firm and its environment, consequently limiting his or her strategic perspective (Geletkanycz & Hambrick, 1997).

Second, new insider CEOs with greater prior board experience at the focal firm are likely to be more psychologically committed to the current strategy. Boards of directors are increasingly involved in strategic decision making (Deutsch et al., 2011). New insider CEOs with prior board experience at the focal firm must have reviewed and approved the firm's current strategy along with other board members. The longer a new insider CEO has served on the focal board prior to succession, the more influence he or she is likely to have had on the development of the firm's current strategy along with the prior CEO, because directors tend to increase their influence over board decisions as their tenure increases (Westphal & Milton, 2000). Being part of the strategic decision-making team tends to make individuals become more identified with the decisions and more convinced of their correctness (Tushman & Romanelli, 1985). Consequently, they will have greater difficulty in conceiving alternatives, as a result of their own active participation in the "social construction of reality" (Barr, Stimpert, & Huff, 1992). The motive to justify prior decisions and maintain consistency in actions over time also serves to reinforce past strategic activities (Staw & Ross, 1980). Thus, a new insider CEO with greater prior experience on the focal board is likely to be more psychologically committed to the firm's current strategy, of which he or she was actively involved in the development and approval process while serving as an inside director before taking over as the CEO. Taken together, the above arguments suggest that greater prior board experience at the focal firm elevates new insider CEOs' degree of insiderness and consequently makes them initiate less strategic change.

Hypothesis 1 (H1): New insider CEOs with greater prior board experience at the focal firm initiate less strategic changes than new insider CEOs with less such experience.

Prior board experience at other firms

We expect prior board experience at other firms to decrease new insider CEOs' degree of insiderness and increase their propensity to initiate strategic change. First, prior board experience at other firms broadens new insider CEOs' strategic perspectives about how the environment behaves, what options are available, and how the organization could be run differently through involvement in strategic decision making at other firms (Geletkanycz & Boyd, 2011). Moreover, because executives generally serve as outside directors only at firms in industries different from their existing ones to avoid anti-trust concerns (Adams, Hermalin, & Weisbach, 2010), new insider CEOs' prior board experience at other firms not only exposes them to different firms but also different industries. Such exposure enables them to accumulate a stock of different experiences, which in turn increases their cognitive breadth, enhances awareness of multiple alternatives, and triggers distant search in the development of firm strategies (Dragoni, Oh, Vankatwyk, & Tesluk, 2011; Crossland et al., 2014). As a result, new insider CEOs with greater prior board experience at other firms are likely to be more capable of developing creative solutions to address their business challenges than new insider CEOs with less such experience. Further, they are likely to have formed more ties with key players in other industries (Kor & Misangyi, 2008). Equipped with this relational capital, they are more able to initiate new business relations that give their firms more opportunities and options to address their strategic challenges.

Second, prior board experience at other firms are likely to make new insider CEOs more aware of and defy their focal firms' preexisting resource configurations, entrenched cultures, and political stasis (Geletkanycz & Hambrick, 1997). New insider CEOs with greater prior board experience at other firms tend to have greater exposure to different organizational contexts, ideas, and practices, which makes them more able to assess their focal firms' strategies from alternative perspectives and generate a wider range of strategic options (Crossland et al., 2014). Hambrick, Geletkanycz, & Fredrickson (1993) suggest that experiences in different firms and industries make CEOs less psychologically committed to their firms' current strategies or industry norms. Taken together, the above arguments suggest that prior board experience at other firms broadens new insider CEOs' strategic perspectives and decreases their degree of insiderness in terms of commitment to the status quo, consequently enabling them to initiate more strategic changes than new insider CEOs with less such experience.

Hypothesis 2 (H2): New insider CEOs with greater prior board experience at other firms initiate more strategic changes than new insider CEOs with less such experience.

Interaction effect of prior board experiences at focal firm and at other firms

Lastly, we expect prior board experiences at the focal firm and at other firms interact to influence new insider CEOs' degree of insiderness and propensity to initiate strategic change. When new insider CEOs have a low level of prior board experience at the focal firm, they were less involved in the development and approval of the current strategy, making them less shaped by the board's collective strategic perspective and less psychologically committed to the current strategy. In this situation, the positive impact of their prior board experience at other firms on strategic change will be amplified, because these new insider CEOs are less constrained by their prior board experience at the focal firm and thus are likely to be more open to the different ideas and perspectives they encounter while serving on the boards of other firms (Hambrick et al., 1993; Zhang & Rajagopalan, 2004). The greater prior board experience new insider CEOs have at other firms and the less prior board experience they have at the focal firm, the more likely they have developed a broader strategic perspective and become less psychologically committed to the current strategy.

In contrast, when new insider CEOs have a high level of prior board experience at the focal firm, they are likely to hold a strong belief in the correctness of the current strategy and have a high level of psychological commitment to it because of their heavy involvement in the strategic decision making process before becoming the CEO, as we explained earlier. Such a positive effect of high prior focal board experience on insiderness is likely to be amplified for insider CEOs who have little prior board experience at other firms, because the lack of exposure to strategic decision making at other firms makes their strategic perspectives more heavily influenced by the prior CEO and the board's collective belief that underlies the development of the current strategy (Geletkanycz & Hambrick, 1997). Although having more prior board experience at other firms gives greater exposure to different ideas and perspectives, we expect it to have a weaker effect on reducing the insiderness of new insider CEOs who have high prior focal board experience because of their high involvement in the development and approval of the current strategy. Moreover, these CEOs are likely to have already shared with the focal board ideas they obtained based on what they observed and learned while serving on the boards of other firms (Geletkanycz & Boyd, 2011). If they were able to convince the board, their ideas must have been incorporated into the current strategy; if not, they were likely to have been convinced by the board regarding why these ideas would not work at the focal firm. Thus, when new insider CEOs have a high level of prior board experience at the focal firm, their belief in the correctness of the current strategy and psychological commitment to it are likely to be less influenced by their prior board experience at other firms.

Taken together, the above arguments suggest that new insider CEOs' prior board experience at other firms has a stronger (weaker) effect on reducing their degree of insiderness and increasing their propensity to initiate strategic change when they have less (more) prior board experience at the focal firm. Consequently, we predict the following interaction effect.

Hypothesis 3 (H3): The positive effect of new insider CEOs' prior board experience at other firms on strategic change is stronger (weaker) when they have less (more) prior board experience at the focal firm.

METHODS

Sample and data

Our initial sample included all firms in the S&P 1500 Index in 2001. We tracked their CEOs from 2001 to 2012 or, in the case of firms delisted before 2012, the last year they were listed as publicly traded firms. We then collected data for all the new CEOs appointed during this period and their firms from multiple sources, including BoardEx, COMPUSTAT, Thompson Financials, Capital IQ, Marquis' *Who's Who,* and proxy statements. After dropping 196 new CEOs who stepped down within two years of succession, we had a final sample of 697 new CEOs with complete information, including 429 insiders who had served as full-time executives of the focal firms for at least one year before becoming CEOs and 268 outsiders who did not have such an experience.

Dependent variable. Consistent with recent studies (Crossland et al., 2014; Zhang & Rajagopalan, 2010), we conceptualized strategic change as reallocations of resources across a set of important strategic domains in the firm and used changes in the following six key strategic dimensions to measure strategic change: advertising intensity (advertising/sales); research and development intensity (R&D/sales); plant and equipment newness (net P&E/gross P&E); non-production overhead in selling, general, and administrative (SGA) expenses (SGA expenses/sales); inventory level (inventory/sales); and financial leverage (debt/equity). Because it takes time for new CEOs to initiate and implement strategic change (Miller & Shamsie, 2001), we decided to measure the overall changes in resource allocation two years after succession. We first calculated the absolute change in each of the six dimensions from the end of year t (the year of succession) to the end of year t+2. As these changes were right-skewed, we followed Crossland et al. (2014)

to log-transform their values. We then standardized each of these six log-transformed measures to make them comparable and used the sum of the standardized scores to create a composite measure of *strategic change* for each of the new CEOs in the final sample.

Independent variables. We measured a new CEO's *prior focal board experience* as the total number of years he or she served on the focal firm's board during the 10 years prior to becoming the CEO. Similarly, we measured a new CEO's *prior other board experience* as the total number of years he or she served as a director at other firms during the 10 years prior to becoming the CEO. Using this 10-year window allowed us to both capture sufficient variation in the new CEOs' prior board experience and ensure that their experience was reasonably recent and relevant. Among the 429 new insider CEOs, 235 (54.8%) had one or more years of prior focal board experience, 65 (15.2%) had one or more years of prior other board experience, and 43 (10.0%) had both.

Control variables. To rule out confounding effects and alternative explanations, we included four sets of control variables at the CEO, board, firm, and industry levels. First, we controlled for several variables at the CEO level. Given our focus on new CEOs' prior board experience, it is important to control for their current board ties because research on board interlocks has shown that top executives' external board ties can have a significant impact on their strategic decisions (Beckman & Haunschild, 2002; Geletkanycz & Boyd, 2011). Consistent with this research, we measured *current board ties* as the number of boards on which a new CEO served as an outside director in the first year after he or she took the CEO position of the focal firm. We also controlled for a number of other important characteristics of the new CEOs that have been found to influence strategic decision and change (Bigley & Wiersema, 2002; Shen & Cannella, 2002a; Zhang & Rajagopalan, 2004), including *prior CEO experience*, *heir apparent experience at the focal firm*, *industry insider experience*, *functional background heterogeneity*, *CEO duality*, *CEO age*, and

CEO ownership. At the board level, we controlled for board size, the ratio of outside directors, and the average tenure and average age of the directors, all of which have been found to influence firm strategies (Westphal & Fredrickson, 2001). In addition, we controlled for *former CEO staying on board* (Quigley & Hambrick, 2012), which was coded 1 if the former CEO remained as a director on the board and 0 otherwise.

At the firm level, we used three factors to control for the effects of the succession context on strategic change: pre-succession strategic change, firm performance, and former CEO dismissal (Crossland et al., 2014; Zhang & Rajagopalan, 2010). We measured *pre-succession strategic change* as the change of resource allocation from the end of year *t*-2 to the end of year *t*-1, *firm performance* as firm ROA in the year of succession when the new CEO took over (i.e., year *t*), and *former CEO dismissal* as 1 if the former CEO stepped down before the age of 60 and did not serve on the focal board afterward and as 0 otherwise (Shen & Cannella, 2002b). Next, we controlled for *firm size*, measured as the logarithm of total assets in year *t* (Zhang & Rajagopalan, 2010), as well as whether the firm was in the *S&P 500 Large-Cap Index* or the *S&P 400 Mid-Cap Index*.

At the industry level, based on each firm's primary 2-digit SIC, we controlled for industry dynamism, munificence, and complexity. We measured *industry dynamism* using the standard deviation of industry sales growth over the five years before the new CEO took office, *industry munificence* using the ratio of industry sales growth or decline over the five years before the new CEO took office, and *industry complexity* using the industry sales concentration index (McNamara, Haleblian, & Dykes, 2008). We also included a set of *industry* and *year dummies* to control for potential heterogeneity across industries and years (Crossland et al., 2014).

Analysis

Because new CEOs' prior board experience is time-invariant, we constructed a cross-sectional dataset at the CEO level to examine its effect on post-succession strategic change. Given that our study focuses only on strategic change by new insider CEOs who stayed in office for more than two years after succession, we followed Certo et al. (2016) to examine whether it suffers from sample selection bias. The results, reported in Appendix 1, show that neither of the two independent variables influences a new CEO's probability of being included in the final sample, indicating no threat of sample selection bias or sample-induced endogeneity (Certo et al., 2016). Because a new CEO's characteristics can be influenced by the succession context and peer practice (Finkelstein et al., 2009), we followed the approach used by Wiersema and Zhang (2011) to address the potential endogeneity this scenario may introduce. We first regressed each of the two independent variables on *pre-succession firm performance* (measured by firm ROA in year *t*-1), *peer CEOs' prior focal board experience* and *peer CEOs' prior other board experience* (measured as the means of prior focal board experience and prior other board experience, respectively, for all the new CEOs appointed in year *t*-1 at the other firms within the focal firm's industry at the two-digit SIC level), *firm size*, as well as industry and year dummies; we then used the residuals from these models as the proxies of the independent variables. This approach enables us to perform a more rigorous test of the hypotheses, because the residuals contained no variance attributable to the succession context or peer practice that was captured by the exclusion variables used in the first-stage analysis (Wiersema & Zhang, 2011).

RESULTS

Table 1 reports variable means, standard deviations, and correlations. Table 2 reports first-stage regression results on new insider CEOs' prior focal and other board experience, respectively. Using the residuals generated from the models in Table 2, we tested the hypotheses regarding the effects of new insider CEOs' prior focal and other board experience on strategic change using ordinary least squares regression with the Huber-White heteroskedasticity-consistent standard errors (White, 1980). Table 3 reports the regression results on post-succession strategic change.

------------ Insert Table 1, Table 2, and Table 3 about here ------------

Model 1 in Table 3 is the baseline model, which includes control variables only; Model 2 and Model 3 add new insider CEOs' prior focal and other board experience, respectively. Model 2 shows a negative coefficient for *prior focal board experience* (b=-.087, p=.023), providing support for H1, which predicts that new insider CEOs' prior board experience at the focal board is negatively associated with strategic change. Model 3 shows a positive coefficient for *prior other board experience* (b=.089, p=.098), providing support for H2, which predicts that new insider CEOs' prior board experience at other firms is positively associated with strategic change.

Model 4 adds the interaction of *prior focal board experience* and *prior other board experience* to test H3, which predicts that the positive effect of new insider CEOs' prior board experience at other firms on strategic change is stronger (weaker) when they have less (more) prior board experience at the focal firm. The coefficient of the interaction term is negative (b=-.037, p=.001), while the coefficient of prior focal board experience remains negative (b=-.068, p=.077) and the coefficient of prior other board experience remains positive (b=0.145, p=.009). To illustrate the interaction effect, Figure 1 presents the relationships between prior other board experience and strategic change for new insider CEOs who had low versus high prior focal board experience (one standard deviation below versus above the mean value). The graph clearly shows that the positive effect of new insider CEOs' prior other board experience on strategic change is stronger (weaker) when prior focal board experience is low (high), providing support for H3.

------------ Insert Figure 1 about here ------------

DISCUSSION AND CONCLUSIONS

This study advances the understanding of why some new insider CEOs make more strategic changes than others by directing attention to their corporate board experience before becoming the CEO. We theorized that new insider CEOs' prior board experience at the focal firm has a negative effect on strategic change, whereas their prior board experience at other firms has a positive effect. Moreover, we predicted these two types of experiences to have an interaction effect such that the positive effect of new insider CEOs' prior board experience at other firms on strategic change is stronger (weaker) when they have less (more) prior board experience at the focal firm. To ensure the robustness of our findings, we ran multiple analyses with alternative measures of prior board experiences (e.g., coding them as dummies using having at least three- or four-years' prior board experience as the cutting point). In addition, because the correlations between measures of prior board experiences and current board ties are relatively high (r=0.62 and r=0.57, respectively), we conducted analyses without having current board ties as a control. Results from all the robustness checks, available upon request, are consistent with our main findings and supportive of our theoretical predictions. Taken together, our theory and findings suggest that new insider CEOs' vary in their degree of insiderness, just like new outsider CEOs vary in their degree of outsiderness (Finkelstein et al, 2009: 190-193; Karaevli, 2007). Specifically, new insider CEOs' prior board experience at the focal firm increases whereas their prior board experience at other firms decreases their degree of insiderness, making those worked at the firm and served on the focal board "super-insiders" while those worked at the firm but served on other boards "not-so-insiders".

Our study supports the central tenet of upper echelons theory regarding the importance of executives' prior experience on strategic decisions (Hambrick, 2007), and highlights prior board experience as an important aspect of it. Although research on board interlocks has examined the effect of executives' current external board ties on strategic decisions (Beckman & Haunschild, 2002; Geletkanycz & Boyd, 2011), only recently have scholars started to study executives' prior external board ties (e.g., Zhu & Chen, 2015; Zhu & Shen, 2016). We contribute to this research by drawing attention to prior board experience at the focal firm and distinguishing it from prior board experience at other firms. Our results do not show that new insider CEOs' current external board ties have an effect on strategic change, particularly after we add prior other board experience to the analysis. These findings support both our proposition of *prior* board experience as a distinct aspect of new insider CEOs' board experience and our conception of differentiating prior board experience at the focal firm from at other firms. In additional analyses, we found that new outsider CEOs make more strategic changes than new insider CEOs, and that outsider CEOs' propensity to make strategic change is not influenced by their prior board experience at the focal or other firms, suggesting that prior board experience has little impact on outsider CEOs' degree of outsiderness.

Lastly, our study has important practical implications. For firms searching for a new CEO to initiate strategic change, they should not limit the search to outside candidates only, as our findings suggest that inside candidates can also be viable options if they have a high level of board experience at other firms. In this regard, firms may encourage their senior executives or potential CEO candidates to serve on the boards of other firms so as to broaden their strategic perspectives and reduce their commitment to the status quo. For firms that prefer to have inside candidates serve on the board to prepare them for taking charge when the time comes, they should be aware that this practice can be a double-edged sword, because it is also likely to limit these candidates' strategic perspectives and increase their commitment to the status quo. To counter this tendency, firms may consider both controlling the time that the inside candidates can serve on the focal board and creating opportunities for them to serve on the boards of other firms.

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Figure 1. Interaction effect of prior focal board experience and prior other board experience on strategic change by new insider CEOs

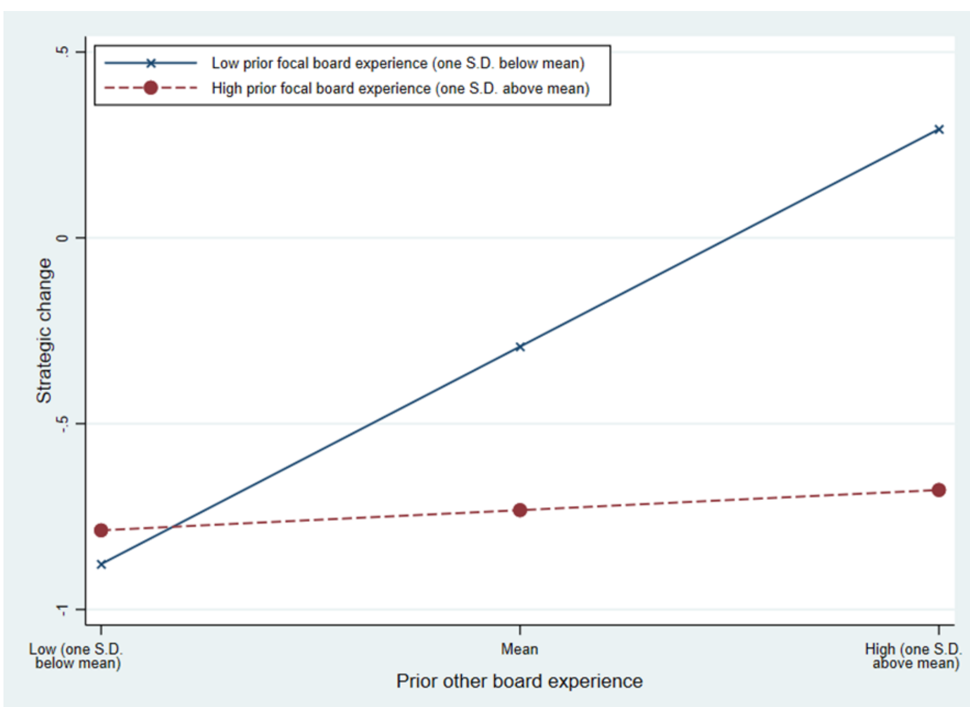

Table 1. Descriptive statistics and correlations

	Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11
1	Strategic change	-0.56	2.62											
2	Prior focal board experience	2.63	3.47	-0.09										
3	Prior other board experience	0.76	2.32	0.07	0.16									
4	Current board ties	0.53	0.64	-0.02	0.62	0.57								
5	Prior CEO experience	0.04	0.20	0.00	-0.05	0.26	0.10							
6	Heir apparent experience	0.60	0.49	-0.05	0.34	0.11	0.32	-0.07						
7	Industry insider	0.90	0.30	-0.06	0.07	-0.03	0.11	-0.01	0.20					
8	Functional heterogeneity	0.40	0.25	0.00	0.00	0.07	0.03	0.12	0.08	0.09				
9	Former CEO staying on board	0.32	0.47	0.06	-0.06	-0.11	-0.01	0.03	0.13	0.03	0.02			
10	CEO duality	0.12	0.33	-0.14	0.07	0.09	0.13	-0.01	0.03	0.08	0.02	-0.18		
11	CEO age	50.73	5.83	-0.19	0.10	0.16	0.18	0.18	0.10	0.09	0.07	0.00	0.13	
12	CEO ownership	0.02	0.07	-0.06	0.26	0.10	0.14	-0.03	0.11	-0.04	0.00	-0.05	0.02	0.09
13	Board size	10.02	2.52	-0.12	0.07	0.22	0.24	0.04	0.08	0.14	0.13	-0.09	0.13	0.20
14	Outside director ratio	0.81	0.11	0.02	-0.53	-0.02	-0.32	0.00	-0.15	0.06	0.14	-0.07	0.01	0.12
15	Director age	60.80	3.73	-0.10	-0.13	-0.03	-0.12	-0.06	-0.01	0.09	0.07	-0.07	-0.01	0.21
16	Director tenure	10.63	5.31	-0.04	0.21	-0.09	-0.01	-0.11	0.06	0.06	0.01	0.07	-0.12	-0.02
17	Pre-succession firm performance	0.03	0.19	-0.22	0.06	0.02	0.07	0.01	0.11	0.16	0.06	0.05	0.05	-0.01
18	Firm performance	0.03	0.11	-0.18	0.09	-0.03	0.04	-0.10	0.11	0.16	0.06	0.02	0.04	0.02
19	Pre-succession strategic change	-0.51	2.89	0.71	-0.08	0.00	-0.08	0.04	-0.10	-0.10	-0.04	0.04	-0.06	-0.13
20	Former CEO dismissal	0.17	0.37	0.03	-0.20	-0.05	-0.17	-0.06	-0.14	0.03	0.00	-0.21	0.04	-0.01
21	Firm size	8.06	1.66	-0.12	-0.08	0.21	0.10	0.14	-0.04	0.04	0.18	-0.19	0.22	0.21
22	S&P 500 large-cap index	0.40	0.49	0.05	-0.10	0.11	0.05	0.09	-0.08	0.03	0.18	-0.13	0.09	0.07
23	S&P 400 mid-cap index	0.27	0.45	0.01	0.00	-0.01	-0.02	-0.02	0.05	-0.02	-0.02	0.02	-0.07	-0.04
24	Industry dynamism	-2.10	0.92	-0.11	0.04	-0.05	-0.02	-0.05	-0.13	-0.09	-0.03	-0.07	0.06	0.07
25	Industry munificent	0.04	0.11	-0.01	0.13	0.05	0.12	0.06	0.04	-0.06	0.04	0.00	0.08	-0.10
26	Industry complexity	0.23	0.19	0.17	0.05	-0.05	-0.01	-0.05	0.00	0.04	0.05	-0.01	-0.10	0.03
27	Peer CEOs' prior focal board experience	1.29	1.61	0.00	0.11	-0.05	0.10	-0.03	0.07	0.02	-0.01	0.01	-0.10	-0.11
28	Peer CEOs' prior other board experience	1.10	1.00	-0.09	-0.11	-0.03	-0.06	-0.02	-0.08	0.04	0.02	0.07	-0.02	0.03

Table 1 Continued

	Variables	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27
13	Board size	0.05															
14	Outside director ratio	-0.14	0.18														
15	Director age	-0.02	0.11	0.22													
16	Director tenure	0.10	-0.01	-0.20	0.37												
17	Pre-succession firm performance	0.05	0.12	-0.02	0.03	0.11											
18	Firm performance	0.06	0.10	-0.08	0.05	0.12	0.54										
19	Pre-succession strategic change	-0.08	-0.17	0.03	-0.08	-0.07	-0.26	-0.20									
20	Former CEO dismissal	0.00	0.00	0.17	-0.13	-0.14	-0.08	-0.07	0.05								
21	Firm size	0.09	0.58	0.29	0.16	-0.12	0.19	0.12	-0.21	0.06							
22	S&P 500 large-cap index	0.03	0.43	0.21	0.07	-0.08	0.10	0.09	-0.03	0.02	0.66						
23	S&P 400 mid-cap index	-0.05	-0.07	-0.04	-0.05	-0.04	0.00	0.03	-0.03	0.02	-0.09	-0.50					
24	Industry dynamism	0.01	-0.04	0.00	0.08	-0.04	0.03	-0.03	-0.09	-0.03	0.04	-0.03	0.06				
25	Industry munificent	0.10	0.09	-0.11	-0.06	-0.01	0.05	-0.03	-0.10	-0.05	0.09	0.04	-0.01	-0.07			
26	Industry complexity	0.14	-0.06	-0.01	0.01	0.09	0.08	0.04	0.17	-0.01	-0.12	0.01	-0.04	-0.10	-0.08		
27	Peer CEOs' prior focal board experience	0.07	0.00	-0.08	-0.08	-0.01	-0.03	-0.02	-0.01	-0.01	-0.04	-0.02	0.02	-0.10	0.18	-0.05	
28	Prior CEOs' prior other board experience	-0.03	0.01	0.09	-0.01	-0.04	-0.08	0.01	-0.07	0.02	0.01	0.06	-0.08	-0.02	0.03	-0.09	0.04

N = 429. Correlations coefficients are at $p < .05$ if greater than 0.09 or less than - 0.09.

Table 2. Regressions that generate residuals to be used as proxies for new insider CEOs' prior board experiences

Variables	Prior focal board experience	Prior other board experience
Pre-succession firm performance	0.973	-0.550
	(0.067)	(0.089)
Peer CEOs' prior other board experience	-0.401	-0.050
	(0.009)	(0.590)
Peer CEOs' prior focal board experience	0.113	-0.143
	(0.302)	(0.060)
Firm size	-0.130	0.356
	(0.234)	(0.001)
Constant	3.008	-1.992
	(0.002)	(0.015)
R^2	0.141	0.093

N=429. The *p*-values are reported in the parentheses and are obtained using robust standard errors in two-tailed tests. Industry and year dummies are included but not reported.

Table 3. Effects of new insider CEOs' prior board experience on strategic change

Variables	Model 1	Model 2	Model 3	Model 4
Prior focal board experience		-0.087		-0.068
		(0.023)		(0.077)
Prior other board experience			0.089	0.145
			(0.098)	(0.009)
Prior other board experience				-0.037
X Prior focal board experience				(0.001)
Current board ties	0.267	0.422	0.055	0.133
	(0.165)	(0.054)	(0.794)	(0.606)
Prior CEO experience	-0.385	-0.520	-0.587	-0.865
	(0.441)	(0.286)	(0.199)	(0.051)
Heir apparent experience	-0.036	0.038	-0.030	0.012
	(0.863)	(0.852)	(0.884)	(0.953)
Industry insider	0.155	0.233	0.230	0.260
	(0.634)	(0.474)	(0.489)	(0.427)
Functional heterogeneity	0.191	0.214	0.168	0.179
	(0.608)	(0.556)	(0.648)	(0.625)
CEO duality	-0.596	-0.578	-0.582	-0.611
	(0.022)	(0.022)	(0.023)	(0.013)
CEO age	-0.041	-0.035	-0.039	-0.029
	(0.016)	(0.043)	(0.022)	(0.087)
CEO ownership	0.095	0.515	-0.098	0.592
	(0.945)	(0.718)	(0.949)	(0.645)
Board size	-0.051	-0.048	-0.053	-0.049
	(0.284)	(0.312)	(0.261)	(0.299)
Outside director ratio	-0.092	-0.674	-0.233	-1.104
	(0.922)	(0.477)	(0.805)	(0.245)
Director age	-0.027	-0.036	-0.030	-0.037
	(0.330)	(0.197)	(0.284)	(0.177)
Director tenure	-0.001	0.010	0.002	0.013
	(0.979)	(0.617)	(0.924)	(0.507)
Former CEO staying on board	0.098	0.016	0.124	0.059
	(0.645)	(0.942)	(0.557)	(0.782)
Pre-succession strategic change	0.523	0.528	0.519	0.524
	(0.000)	(0.000)	(0.000)	(0.000)
Firm performance	-2.259	-2.255	-2.265	-2.377
	(0.007)	(0.009)	(0.008)	(0.006)
Former CEO dismissal	-0.020	-0.103	-0.039	-0.087
	(0.935)	(0.683)	(0.876)	(0.723)
Firm size	0.117	0.128	0.133	0.149
	(0.215)	(0.183)	(0.161)	(0.110)
S&P 500 large-cap index	0.679	0.616	0.689	0.685
	(0.019)	(0.031)	(0.017)	(0.015)
S&P 400 mid-cap index	0.540	0.455	0.499	0.541
	(0.022)	(0.048)	(0.032)	(0.017)
Industry dynamism	-0.107	-0.050	-0.040	0.003
	(0.325)	(0.633)	(0.705)	(0.976)
Industry munificent	1.083	1.092	1.149	1.430
	(0.233)	(0.220)	(0.204)	(0.098)
Industry complexity	-0.119	-0.037	-0.048	0.051
	(0.818)	(0.943)	(0.925)	(0.920)
Constant	2.747	3.059	2.878	3.211
	(0.098)	(0.073)	(0.087)	(0.056)
R^2	0.593	0.597	0.595	0.608

N = 429. The *p*-values are reported in the parentheses and are obtained using robust standard errors in two-tailed tests. Industry and year dummies are included but not reported.

Appendix 1. The effects of new CEOs' prior board experiences on their likelihood of being selected into the final sample

Variables	Model 1
Prior focal board experience	0.032
	(0.256)
Prior other board experience	-0.007
	(0.803)
Current board ties	-0.141
	(0.292)
Prior CEO experience	-0.819
	(0.000)
Heir apparent experience	0.687
	(0.000)
Industry insider	1.436
	(0.000)
Functional heterogeneity	0.019
	(0.923)
CEO duality	-0.118
	(0.476)
CEO age	-0.005
	(0.604)
CEO ownership	-0.969
	(0.179)
Board size	0.005
	(0.840)
Outside director ratio	-1.794
	(0.006)
Director age	0.023
	(0.157)
Director tenure	-0.007
	(0.537)
Former CEO staying on board	0.091
	(0.478)
Pre-succession strategic change	-0.033
	(0.143)
Firm performance	-0.042
	(0.871)
Former CEO dismissal	-0.260
	(0.049)
Firm size	0.054
	(0.284)
S&P 500 large-cap index	-0.107
	(0.544)
S&P 400 mid-cap index	-0.069
	(0.642)
Industry dynamism	0.104
	(0.126)
Industry munificent	-0.229
	(0.695)
Industry complexity	0.270
	(0.391)
Constant	-1.111
	(0.290)
Log likelihood	-371.108
Chi2	494.373

N=893. The p-values are reported in the parentheses and are obtained using robust standard errors in two-tailed tests. Industry and year dummies are included but not reported.