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SHOOT FOR THE STARS? PREDICTING THE RECRUITMENT OF PRESTIGIOUS DIRECTORS AT NEWLY PUBLIC FIRMS

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This study explores how CEOs' and outside directors' desires for the benefits of signaling and "homophily" intertwine with their concerns over maintaining power and preserving local status hierarchies to affect the likelihood a firm recruits prestigious outside directors to its board. Using pooled cross-sectional data on the five years following the initial public offerings (IPOs) of 210 firms that went public between 2001 and 2004, we found that prestigious CEOs and directors viewed the recruitment of prestigious new directors differently and that these perceptions were moderated by factors that increase the salience of risk of potential losses to CEOs and existing board members.

How firms convey their "quality" through prestigious affiliations has long captured researchers' interest (e.g., D'Aveni, 1990; Higgins & Gulati, 2006; Stuart, Hoang, & Hybels, 1999). The central premise of this research stream is that firms in ambiguous circumstances, particularly young companies that lack established track records or prior performance histories, seek to reduce others' uncertainties by forging exchange relationships with prestigious or high-status actors, thereby signaling their quality through these actors' willingness to affiliate with them (Podolny, 1993, 1994; Zimmerman & Zeitz, 2002). In particular, young firms that conduct initial public offerings (IPOs) have garnered considerable attention from entrepreneurship and strategy scholars, who have examined the benefits of affiliations with top-tier venture capital

firms (Gompers & Lerner, 2004; Lee, Pollock, & Jin, 2011; Sanders & Boivie, 2004), prestigious underwriters (Fischer & Pollock, 2004; Gulati & Higgins, 2003; Pollock, 2004), and prestigious executives (Higgins & Gulati, 2006; Pollock, Chen, Jackson, & Hambrick, 2010) and directors (Certo, 2003; Chen, Hambrick, & Pollock, 2008; Deutsch & Ross, 2003).

Implicit in all this research is the critical assumption that firms prefer prestigious to nonprestigious affiliates—an assumption that has not been exposed to much systematic scrutiny. Indeed, even though recent research has begun to consider the benefits to prestigious actors of affiliating with nonprestigious actors (Castellucci & Ertug, 2010) and the negative performance consequences of having too many stars on a team (Groysberg, Polzer, & Elfenbein, 2011), little research has been conducted exploring the extents to which actors recognize and weigh the costs of a prestigious affiliation relative to its benefits or identified circumstances under which perceived costs outweigh benefits in their influence on decision making. To the extent that the costs of prestigious affiliations have been considered, the focus has been primarily on financial costs (e.g., Chen et al., 2008; Hsu, 2004), a concern that speaks to the means of obtaining prestigious affiliates, but not to the desire to do so. Little research we are aware of has considered how nonfinancial costs can affect the desire to pursue prestigious affiliations, even when a firm possesses the

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capability to do so via existing stores of prestige (Chen et al., 2008; Pollock et al., 2010).

This issue is important because prior research has shown that when it comes to the prestige of a firm's existing directors, market reactions suggest "more is better" (Pollock et al., 2010). However, we contend that affiliating with prestigious actors can involve considerable internal costs, as adding prestigious new actors to a group can disrupt the existing status order and power structure (Bendersky & Hays, 2012; Groysberg et al., 2011; Magee & Galinsky, 2008). Thus, the perceived desirability of prestigious affiliations is likely to vary more than has been assumed. We argue that there are diminishing marginal benefits and increasing marginal costs to adding more prestigious directors to the board, and that concerns about the relative costs are heightened when existing prestigious directors and/or the CEO perceive a threat to their power or standing in the local status order from adding a prestigious new director (Brehm & Brehm, 1981; Cialdini, 2004; Kahneman & Tversky, 1979).

We situate this study in the context of recruiting new outside directors during the crucial five years following a company's initial public offering (IPO) (Fischer & Pollock, 2004; Kroll, Walters, & Le, 2007). Recruiting prestigious directors is a complex sociopolitical process that affects and is affected by a firm's CEO and incumbent directors (Stern & Westphal, 2010; Westphal & Khanna, 2003). While prestigious directors can signal a firm's unobservable quality and provide other benefits associated with "homophily," the desire to associate with others who share similar values, beliefs, interests, and other characteristics (McPherson & Smith-Lovin, 1987; Stryker & Burke, 2000), they can also entail costs for firms' upper echelon members, because prestigious directors are more likely than nonprestigious directors to assert themselves in ways that disrupt a current within-group status order and threaten others' power and discretion (Bendersky & Hays, 2011; Hambrick & Finkelstein, 1987; Groysberg et al., 2011). Thus, while prestigious affiliations generate many "external" benefits, the perceived desirability of prestigious new directors is likely to be contingent on the extent to which they are also perceived to create internal, or "local," costs.

We test our arguments using data from a five-year, pooled cross sectional sample of 210 firms that went public between 2001 and 2004. Director recruitment at newly public firms is a useful context for exploring this issue because prestigious

directors play an important role in a young firm's development. IPOs bring about transformational changes that "reset the clock" on these firms' "liabilities of newness" (Fischer & Pollock, 2004) and engender substantial uncertainty for external market evaluators (Jain & Kini, 2000). The ability to recruit and retain prestigious directors significantly reduces perceived uncertainty during this period (Pollock et al., 2010; Spence, 1973), and a fair bit of turnover is likely as early investors and others leave an IPO firm's board, and/or the board is expanded to include new members (Husick & Arrington, 1998). In addition, because all directors receive the same compensation for their service (Hambrick & Jackson, 2000), this context effectively controls for the association between prestige and cost as an alternative explanation.

Answering the questions why and under what conditions firms avoid recruiting prestigious directors even when they have the ability to do so contributes to several different literatures. Exploring how the perceived nonfinancial costs of prestigious affiliations could affect director recruiting decisions contributes to the literatures on corporate governance and director labor markets (e.g., Coles & Hoi, 2002; Westphal & Zajac, 1995) by providing insight into director recruiting decisions and identifying some unintended consequences of "good governance" practices. It also contributes to the literature on status and homophily (e.g., Bendersky & Hays, 2011; McPherson & Smith-Lovin, 1987) by exploring how the social-psychological benefits of homophily can be tempered by countervailing concerns about the threats to existing actors' power, and also by increasing understanding of why, and under what conditions, high-status individuals want to associate with lower-status actors (Castellucci & Ertug, 2010; Frank, 1985). Finally, our study contributes to the literature on signaling (Pollock & Gulati, 2007; Spence, 1973) by developing a more nuanced understanding of the internal factors that can influence decisions to engage in activities that have potential signaling benefits, and the accuracy of certain governance characteristics as signals.

In the following sections, we first discuss the underlying logic of signaling and explicate the benefits and costs of hiring prestigious directors. We then discuss how the prestige and power of a firm's CEO and incumbent directors can affect their perceptions and the likelihood they will recruit new prestigious directors.

THEORY AND HYPOTHESES

Benefits and Costs of Recruiting Prestigious Directors

Prestige is defined as an actor's position in a hierarchical social order that is "tied to the pattern of relations and affiliations in which the actor does and does not choose to engage" (Podolny, 2005: 13). Although we primarily use the term "prestige" in this study, "prestige" and "status" are synonymous in organizational research (e.g., D'Aveni, 1990; Podolny, 2005). An actor's prestige is often treated as an indicator of its quality (Podolny, 2005), particularly in highly uncertain situations (Higgins & Gulati, 2006; Podolny, 1994; Zimmerman & Zeitz, 2002). To the extent an actor has affiliations with prestigious actors, it is also perceived as being of higher quality. In this study we focus on one prestigious affiliate in particular: outside directors.

The benefits of prestigious directors. In their quest to reduce uncertainty, firms adopt organizational structures—such as boards composed of prestigious directors—that can convey the firms' quality (Certo, 2003; Chen et al., 2008; Higgins & Gulati, 2006). Indeed, Pfeffer and Salancik stated that "prestigious or legitimate persons or organizations represented on the focal organization's board provide confirmation to the rest of the world of the value and worth of the organizations" (1978: 145). Recent research (Pollock et al., 2010) showed that director prestige had a positive, linear relationship with initial market valuations of IPO firms, suggesting that when it comes to prestigious directors, from the market's perspective more is better.

Prestigious directors also meet Spence's (1973) two criteria for credible signals: they should be (1) observable and (2) costly to obtain. Membership on a firm's board of directors is highly visible and easily observable. Further, prestigious directors build their status over the course of their careers by serving on boards of successful companies and earning elite educational and employment credentials (Certo, 2003; Pollock et al., 2010). Given the costliness of acquiring prestige, prestigious directors are selective in accepting board seats, thereby protecting their relative standing in the director labor market (Fama, 1980; Pozner, 2008) and making them a valuable and somewhat difficult to obtain resource that conveys a firm's quality to other market participants.

In addition, prior research suggests that prestigious directors can yield more local benefits to a

firm's executives and directors as a result of homophily and by enhancing their own individual status via direct affiliation (Chen et al., 2008; Deutsch & Ross, 2003). However, such affiliations can also impose certain costs on a CEO and other board members. In particular, we argue that prestigious directors are even more likely than nonprestigious directors to be actively involved members who try to assert their influence on a board (Finkelstein, Hambrick, & Canella, 2009), which can disrupt the board's prior working relationships and threaten its current status ordering (Bendersky & Hays, 2011; Gabrielsson, 2007; Groysberg et al., 2011). It is to this issue we now turn our attention.

The costs of prestigious directors. While directors in general represent the corporate elite, prestigious directors represent this elite group's inner circle (D'Aveni & Kesner, 1993; Davis, Yoo, & Baker, 2003). As their relative standing in the director labor market is actively built over their careers, prestigious directors carefully guard their prestige. Arthaud-Day, Certo, Dalton, and Dalton (2006) showed that directors tend to exit firms whose credibility is under threat to protect their personal prestige. Furthermore, directors may experience a "settling-up" in the director labor market whereby their past actions affect their status and subsequent board appointments (Fama, 1980; Srinivasan, 2005).

Extending this line of thought, we argue that prestigious directors are also likely to guard their status by actively involving themselves in board activities. Prior research has shown that "people with higher status have more opportunities to exert social influence, try to influence other group members more often, and are indeed more influential than people with lower status" (Levine & Moreland, 1990: 600). They also tend to be evaluated more positively (Levine & Moreland, 1990). With respect to boards specifically, Finkelstein and colleagues note, "prestigious directors are unlikely to serve solely as 'rubber stamps' because (1) they may very well have been in a position to select among multiple directorship offers and they likely would not have decided to sit on a board where they would have no impact, and (2) prestige may be accepted as a signal of managerial competence by firm's top managers (D'Aveni & Kesner, 1993), opening the door to a wider director role in strategy formulation" (2009: 267).

Further, by affiliating with young, unproven companies, prestigious directors face some risk of status leakage (Castellucci & Ertug, 2010; Podolny,

2005). Prestigious individuals are likely to be conscious of their relative standing in a social order (Frank, 1985; Hambrick & Canella, 1993), so they will act to establish and/or maintain their prestigious positions—working hard to increase a firm’s success via increased monitoring (D’Aveni & Kesner, 1993; Fama & Jensen, 1983; Finkelstein et al., 2009) and/or offering advice and counsel to top executives more frequently (Lynall, Golden, & Hillman, 2003)—or will exit the situation (Arthaud-Day et al., 2006; Hambrick & Canella, 1993; Withers, Corley, & Hillman, 2012).

It follows, then, that prestigious directors are more likely to be active board members who exert their power when interacting with executives and other board members, particularly at newly public firms, where circumstances are evolving and where active directors are likely to have the greatest direct influence (Daily, McDowall, Covin, & Dalton, 2002; Gabrielsson, 2007). This level and intensity of involvement may seem intrusive to incumbent executives and directors, who have their own perspectives and who have established work routines and an internal status structure among board members (Bendersky & Hays, 2011; Magee & Galinsky, 2008). Although none of this research has considered boards of directors explicitly, it nonetheless has significant implications for board functioning (Hambrick, 1994). Boards of directors establish norms and routines of interpersonal interaction (Wagner, Pfeffer, & O’Reilly, 1984) and informal hierarchies (He & Huang, 2011) over repeated interactions. New directors may be perceived as disruptive and potentially threatening, especially when they are powerful (Magee & Galinsky, 2008).

Thus, the addition of prestigious directors to a board can bring both benefits and costs; whereas prestigious directors provide signaling value, expertise, and valuable network connections, and can enhance the status of a firm and its executives and other directors (Certo, 2003; Graffin, Wade, Porac, & McNamee, 2008), they can also generate costs in the form of challenges to the power of the CEO and current directors, and disruptions to the internal status structure and operations of the board. Below, we develop hypotheses to predict how and when CEO and board characteristics are likely to influence perceptions of the relative benefits and costs of prestigious directors, and the likelihood that a prestigious director will be recruited to a newly public firm’s board. We argue that current directors and CEOs weigh the benefits and costs of a prestigious new director differently as a function of their

prestige and of circumstances that decrease the perceived costs associated with recruiting a prestigious new director.

Recruiting Prestigious Directors

Board prestige. Research on board service has considered a variety of nonfinancial motivations that lead directors to serve on or exit boards (Boivie, Graffin, & Pollock, 2012; Lorsch & MacIver, 1989). This research has suggested that a primary motivation to accept a board seat is establishing and/or maintaining membership in the corporate elite. As such, prestigious directors are more likely to be attracted to boards composed of other prestigious directors (Certo, 2003). This attraction is due to homophily, or the desire to associate with others who share similar values, beliefs, interests, and other characteristics (Stryker & Burke, 2000). These similarities ease communication and build trust (Lazarsfeld & Merton, 1954; McPherson & Smith-Lovin, 1987) and decrease the duration of dissimilar and mismatched associations (Wagner et al., 1984). Further, in the case of status, homophily also tends to reinforce current status orderings (Pearce, 2011; Podolny, 1993).

Newly public firms tend to vary in their stocks of board prestige at IPO as a function of their founding conditions and their early efforts to recruit prestigious directors (Beckman, Burton, & O’Reilly, 2007; Chen et al., 2008). Recent research has demonstrated that firms with existing stores of prestige have an easier time recruiting other prestigious actors (e.g., Higgins & Gulati, 2006; Chen et al., 2008) and experience more positive organizational consequences as a result (e.g., Pollock et al., 2010; Stuart et al., 1999). Given the signaling and homophily benefits associated with prestigious affiliations, we expect this process to continue following an IPO as a board is expanded and/or current directors leave the board.

However, this relationship is unlikely to be linear. Recent research has shown that while adding prestigious individuals can increase group performance initially, this effect diminishes as the number of prestigious individuals increases. Bendersky and Hays (2011) distinguished among task, relationship, process, and status conflict in groups and demonstrated that status conflict not only led to a decrease in group performance, but also moderated the effects of task conflict (i.e., conflict over what a group should do) on group performance. Their findings are consistent with earlier research sug-

gesting that executives whose relative position in the corporate status hierarchy diminishes following an acquisition were more likely to leave a company (Hambrick & Cannella, 1993) and that having too many stars on a team can lead to a decrement in group performance (Groysberg et al., 2011).

Thus, we expect that while the prestige of a firm's current directors can increase the likelihood the firm both desires and is able to attract prestigious new directors (Chen et al., 2008), as the board's pre-existing prestige increases, the costs of recruiting prestigious new directors become more salient and the marginal benefits in terms of signaling, homophily, and status enhancement diminish. We therefore hypothesize,

Hypothesis 1. When a new outside director is recruited, a firm's preexisting board prestige has a positive but diminishing relationship with the likelihood the new director is prestigious.¹

CEO prestige. Like prestigious directors, prestigious CEOs also face competing incentives to recruit prestigious new directors. On the one hand, the presence of prestigious directors sends positive signals that ease resource acquisition, create strategic opportunities for a CEO, increase the CEO's own relative status, and provide the benefits of homophily (Hillman et al., 2009; Pfeffer & Salancik, 1978). Further, firms headed by prestigious CEOs are likely to be attractive to prestigious outside directors. As noted earlier, directors form an elite group, or inner circle, of highly influential corporate leaders (D'Aveni & Kesner, 1993; Davis et al., 2003). Gaining an additional board seat that expands a director's elite network is another benefit of sitting on a prestigious CEO's board. Thus, all else being equal, prestigious CEOs are not only likely to enhance their own prestige by affiliating with prestigious directors; they will also have an easier time recruiting prestigious directors because of the status affiliation benefits they offer (Graffin et al., 2008; Podolny, 1993, 1994).

Like directors, prestigious CEOs may also perceive significant costs associated with recruiting

prestigious outside directors that offset the perceived benefits. CEOs tend to be independent, ambitious individuals (Hambrick, 1994; Hiller & Hambrick, 2005). Further, the desire to maintain their independence and be their own boss is one of the major factors that drive entrepreneurs to start new businesses (Sapienza, Korsgaard, & Forbes, 2003; Shane, 2008). As such, we expect the CEOs of newly public firms to resist actions that could restrict their discretion (Hambrick & Finkelstein, 1987) or diminish their power (Westphal, 1998). Thus, they too may be apprehensive about what a new prestigious director may attempt to do if asked to join their board, and how it will affect their own standing in the board's status order.

However, scholars have found that CEOs can preserve their discretion by engaging in sophisticated interpersonal interactions when their boards' structural independence is increased (Stern & Westphal, 2010; Westphal, 1998), suggesting prestigious CEOs may be less concerned about adding a prestigious director because they think they have other means of maintaining their discretion. Thus, all else being equal, we expect the benefits of signaling and homophily to outweigh the potential costs and prestigious CEOs to be more rather than less likely to recruit prestigious directors. We therefore hypothesize,

Hypothesis 2. When a new outside director is recruited, the presence of a prestigious CEO is positively related to the likelihood the new director is prestigious.

Framing Prestigious Director Recruitment as a Gain or Loss

Our first two hypotheses are based on conditions that "hold all else equal." However, contextual factors may affect whether the recruitment of a prestigious director is framed as a potential gain or loss for individual directors and/or CEOs and thus influence the weights they assign to the perceived costs and benefits of recruiting a prestigious outside director. Two psychological processes—loss aversion (Kahneman & Tversky, 1979) and psychological reactance (Brehm & Brehm, 1981; Wright, Wadley, Danner, & Phillips, 1992)—suggest that factors increasing concerns about the loss of an actor's status and/or their discretion to act will weaken the positive relationships predicted above.

Loss aversion. A central tenet of prospect theory (Kahneman & Tversky, 1979; see Holmes, Bromi-

¹ Although firms can and do recruit more than one director in a given year, there were too few instances in which more than one new director was prestigious in a given year to test for the recruitment of multiple prestigious directors. We therefore phrase our hypotheses in terms of recruiting a prestigious director. We address this issue in our discussion of future research directions.

ley, Devers, Holcomb, and McGuire [2011] for a recent review of the literature) is that individuals weight the potential for gains and losses asymmetrically and as a function of whether they are currently in a gain or loss position. In general, individuals are more concerned with avoiding losses than they are with capturing gains (Holmes et al., 2011; Kahneman & Tversky, 1979). Further, these assessments are made relative to a reference point, and how a decision is framed can have a significant influence on the decision made (Bazerman, 1984; Tversky & Kahneman, 1981). In the context of our study, this suggests that if CEOs and directors feel confident they can maintain their position in a local status order and/or discretion, they are more likely to focus on the gains to be had from recruiting prestigious outside directors. However, if they are less confident in this assessment, then the costs will be weighted more heavily than the benefits and the likelihood of recruiting a prestigious outside director will be reduced. Thus, factors that increase CEO and/or director confidence that circumstances won't change if a prestigious new director is recruited should result in a more positive framing focused on the benefits of adding a prestigious new director and increase the likelihood a prestigious director is recruited.

Psychological reactance. Psychological reactance theory (Brehm & Brehm, 1981; Wright et al., 1992) describes individuals' reactions to the perceived threat of losing control or discretion. It suggests that individuals who perceive threats to their freedom and control will resist pressure to take actions that increase these threats. Further, psychological reactance theory suggests that individuals fight harder to avoid losing something they currently possess than they do to acquire something they do not already own or control (Cialdini, 2004). Research in psychology has also shown that such reactions are more likely in individuals with high self-esteem or internal locus of control, two personality traits that typically characterize upper echelons members (Brehm & Brehm, 1981; Brockner & Elkind, 1985; Hiller & Hambrick, 2005). Thus, psychological reactance theory suggests that directors and CEOs will fight aggressively to protect their discretion and/or status if they perceive them to be threatened. In this context, that means they would resist recruiting a prestigious new director if they felt it threatened the status quo. Below we consider two contextual factors—one at the board level and the other at the CEO level—that can influence how

threatening recruiting a prestigious new director is likely to be perceived to be.

Board tenure. Boards are primarily groups of individuals (Finkelstein & Mooney, 2003; Hambrick, 1994), and while the benefits of recruiting prestigious directors are clear, bringing additional prestigious directors onto a board can also increase status and role conflict and decrease overall group cohesion and performance (Bendersky & Hays, 2011; Groysberg et al., 2011). Maintaining effective group processes can be particularly challenging for boards, both because directors meet only episodically (e.g. Forbes & Milliken, 1999) and because their roles are more ambiguous than the CEO role and thus more apt to be consensually negotiated (Finkelstein & Mooney, 2003; He & Huang, 2011).

Although the addition of any new director can be disruptive, the addition of a prestigious director has greater potential to be disruptive because it is more likely to affect a current social order. Prestigious directors tend to be powerful actors who are more likely to try imprinting their own perspectives and ways of functioning on the board (e.g. Westphal & Zajac, 1995) and who will want to establish their positions at or near the top of the within-group status hierarchy (Bendersky & Hays, 2012; Hambrick & Cannella, 1993). Thus, they may be more likely to disrupt group processes and cohesion and create personal threats to the relative standing of prestigious directors already on the board.

However, the extent to which directors have worked together for longer periods of time can affect whether boards perceive themselves to be susceptible to the costs of adding a prestigious new director, and thus whether adding a prestigious director will be framed as a potential for gain or loss. He and Huang (2011) found that clarity in directors' relative standings on a board increases board functioning. Contests over individuals' relative standings in a social order are more likely to occur early in a group's development, when individuals are still getting to know each other and establishing relationships. Directors who have served together for longer periods of time may have less uncertainty about their place in their local status order and may perceive the current order to be more entrenched and unlikely to change (Hannan & Freeman, 1984), enhancing their optimism that they can maintain their positions in the face of new competitive threats (Camerer & Lovallo, 1999) and thereby reducing the perceived costs of adding a new prestigious director. Prior research on teams

and working groups has also demonstrated that the tenure of members in any group is an important factor influencing team processes such as communication, cohesion, trust, and social integration (e.g., Chatman & Flynn, 2001; Harrison, Price, & Bell, 1998). Furthermore, as communication patterns become routinized over time, new directors are less likely to form communication linkages with incumbent board members right away, reducing the new directors' immediate influence (Wagner et al., 1984).

Taken together, this suggests that whereas directors who have served together for longer periods of time are less likely to perceive the addition of a prestigious new outside director as a threat to their relative standing, thereby decreasing the likelihood loss aversion and psychological reactance will be triggered, directors who have worked together for shorter periods may be more susceptible to these processes. We therefore hypothesize:

Hypothesis 3. When a new outside director is recruited, the positive but diminishing relationship between pre-existing board prestige and the likelihood the new director is prestigious is stronger the longer existing directors have worked together.

Additional sources of CEO power. Like prestigious directors, prestigious CEOs are also like to vary in their reaction to recruiting a prestigious new director depending on whether they perceive a greater potential for gain or loss. Whereas the primary concern for directors is more likely to be with relative standing in the local status order and group dynamics, for CEOs the primary concern is likely to be whether they will be able to maintain their discretion and ability to act as they see fit, which is a function of a CEO's sources of power (Finkelstein, 1992; Hambrick & Finkelstein, 1987).

While prestige is one source of a CEO's power (Finkelstein, 1992), Finkelstein identified two additional sources of executive power: the structural features of an organization (i.e., structural power) and ownership (i.e., ownership power).² Greater levels of CEO structural and ownership power influence a variety of governance behaviors and strategic corporate initiatives (e.g., Dalton, Daily, Ell-

strand, & Johnson, 1998; Fischer & Pollock, 2004; Nelson, 2003; Pearce & Zahra, 1991; Westphal, 1998), and can influence whether prestigious CEOs view a prestigious new director as an opportunity or a threat.

Structural power is derived from the formal organizational structures and hierarchical authority that provide a CEO with "the legislative right" (Finkelstein, 1992: 509) to exert influence. Serving as both a firm's CEO and chairman of the board, including fewer outside directors on the board, and establishing governance rules that reduce the threat of hostile takeovers (e.g., Westphal, 1998; Westphal & Zajac, 1995) are examples of structural sources of CEO power. Ownership power derives from a CEO's direct ownership of stock (e.g., Boeker & Karichalil, 2002; Pollock, Fund, & Baker, 2009) and from being a company's founder (Nelson, 2003). As Finkelstein noted, "managers who are founders of the firm or related to founders may gain power through their often long-term interaction with the board, as they translate their unique positions to implicit control over board members" (1992: 509). Founder status may also confer additional expert power to the extent the founder is viewed as a visionary leader who has greater knowledge and insight into the market and/or characteristics of the company's products or technology (e.g., Nelson, 2003).

Although in general we expect prestigious CEOs will focus more on the benefits than the costs of recruiting prestigious new directors, we expect this relationship to be stronger the more secure they feel about their ability to maintain their discretion and influence. Possessing multiple sources of power can enhance this sense of security. Thus, a prestigious CEO who also possesses structural and/or ownership power may be less likely to frame the addition of a prestigious new director in terms of loss rather than gain. We therefore hypothesize,

Hypothesis 4. When a new outside director is recruited, the positive relationship between CEO prestige and the likelihood the new director is prestigious is stronger the greater the structural and ownership power of the CEO.

DATA AND METHODS

Sample

The data for this study were obtained from the prospectuses filed for all the IPOs conducted be-

² Although the characteristics we discuss are sources of power, and thus antecedent to the actual exercise of power, for ease of exposition we hereafter refer to them as "structural power" and "ownership power."

tween 2001 and 2004 and annual proxy statements filed with the Securities and Exchange Commission (SEC) for the five years following the IPOs. Prior research has shown that firms are considered “newly public” during the initial five years following their IPOs and “seasoned” public entities thereafter (Fischer & Pollock, 2004; Kroll et al., 2007). Consistently with prior research (e.g. Fischer & Pollock, 2004), we excluded closed-end mutual funds, real estate investment trusts (REITS), unit offerings, spin-offs, demutualization of savings banks and insurance companies, and leveraged buyouts (LBOs) from the analysis. The final sample consisted of 232 firms. Missing data reduced this sample to 210 firms.

Not all of these firms existed as independent entities for all five years of observation. Seventy-seven of the firms were delisted from the stock exchange on which they traded during our period of study owing to acquisition, bankruptcy, or failure to meet minimum exchange requirements. Delisting data were obtained from the CRSP database. Delisted firms were dropped from the sample after delisting occurred, and all other firms were treated as “right censored,” resulting in 826 firm-year observations.

Dependent Variable: Recruitment of a Prestigious Director

The dependent variable in this study was the recruitment of a prestigious director in a given year. As in prior research (e.g., D’Aveni, 1990; Chen et al., 2008; Pollock et al., 2010), outside directors were considered prestigious if they possessed at least one of the following credentials: a degree from an elite educational institution on Finkelstein’s (1992) list of 20 institutions (educational prestige), experience as an executive at the level of vice president or above at a Standard & Poor’s (S&P) 500 company (employment prestige), or experience as an outside director in an S&P 500 firm (directorship prestige). Although Chen and colleagues focused on S&P 100 companies, they conducted a single-industry study that included only software companies in three four-digit SIC categories. Because our sample covers 41 industries at the two-digit SIC level, replicating this level of granularity was not feasible. When determining the prestige of directors’ prior employment and outside directorships,

we constructed a lagged-year list of S&P 500 firms for each year of the study.³

We operationalized director prestige two different ways. First, since we were interested in *whether* a prestigious new director was recruited, we constructed a time-variant dichotomous measure coded 1 when a firm recruited a director who possessed *any* of the three prestige credentials in a given year and 0 otherwise. An average of 33.74 percent of firms in any given year reported adding at least one prestigious outside director to their boards. There was little variation in this average across years, which ranged from a low of 29 percent in year 5 to a high of 36 percent in years 1 and 2.

Second, we created a count variable ranging from zero to three that captured the number of prestige credentials a new director possessed. This measure reflects *how* prestigious a new director is. Sixty percent of the prestigious new directors in our sample had one source of prestige, 34 percent had two sources of prestige, and 6 percent had all three sources of prestige.

Independent Variables

Board prestige. This measure was calculated as the aggregate number of continuing prestigious directors that served on a focal firm’s board in a given year. We also included the square of this measure to test for the hypothesized curvilinear relationship.

CEO prestige. This measure was operationalized in the same manner as director prestige. CEO prestige was coded 1 if the CEO possessed any one of the three prestige credentials (educational, employment, or directorship prestige) and was coded 0 otherwise.

Average board tenure. We operationalized the amount of time directors had worked together as the average tenure of board members (Carpenter, 2002; Fischer & Pollock, 2004). This measure was calculated by summing the number of years each individual served as a director on a focal firm’s

³ In analyses not reported here we also explored whether there were differences in the effect of each prestige indicator on the likelihood a prestigious director was recruited by using each indicator separately in our analysis. We did not find any substantive differences among the indicators in the construction of the prestigious director independent variables or dependent variable in effects on the likelihood of recruiting prestigious outside directors.

board (director tenure) listed in the offering prospectus and the annual proxy statements and dividing the sum by the total number of directors on the board.⁴

CEO ownership power. CEO ownership power was operationalized using two measures: the percentage of stock owned by a firm's CEO, and whether or not the CEO was a company founder (Finkelstein, 1992). *CEO stock ownership* equaled the percentage of shares outstanding at the end of the year beneficially held by a firm's CEO (Fischer & Pollock, 2004). *Founder CEO status* was coded 1 if the CEO was the company founder and 0 otherwise.

CEO structural power. CEO structural power was operationalized using three measures: CEO duality, percentage of outside directors, and use of staggered elections of directors. Companies sometimes stagger the elections of their directors so that only a minority of directors is up for reelection in a given year to reduce the likelihood of hostile takeovers. *CEO duality* was coded 1 if a CEO was also the chairman of his/her firm's board in a given year and 0 otherwise. The *outside director ratio* equaled the number of outside directors on a firm's board, defined as directors lacking any current or past executive positions in the firm and not related to any current employees (e.g., Daily et al., 2002), divided by the total number of directors on the board. *Staggered board* was a dummy variable coded 1 if a firm's board had staggered elections and 0 otherwise.

Control Variables

Time-invariant IPO characteristics. Following prior research (Chen et al., 2008; Pollock, Rindova, & Maggitti, 2008), we controlled for several characteristics of an IPO that could create initial conditions with long-term consequences for a firm's development and ability to attract prestigious directors (e.g., Baron, Hannan, & Burton, 1999; Fischer & Pollock, 2004). *Offer size* was calculated as the product of the total number of shares offered during an IPO and its offering price. Offer size can signal the market about a firm's quality and stabil-

ity (e.g. Fischer & Pollock, 2004; Ibbotson & Ritter, 1995). To reduce the effect of extreme values, we transformed this variable into its natural logarithm. *Underpricing* was calculated as the percentage change in a stock's price ($[\text{end price} - \text{initial price}] / [\text{initial price}]$) on the first day the stock traded publicly on a national exchange (e.g., Loughran & Ritter, 1995). The data used to calculate underpricing were drawn from CRSP. Underpricing has been found to create buzz and enhance expectations of a firm's potential, and thus its ability to acquire resources during the years following IPO (e.g., Jegadeesh, Weinstein, & Welch, 1993; Pollock & Gulati, 2007). *VC backing* was a dummy variable coded 1 if a firm received financial backing from venture capitalists (VCs) prior to IPO and 0 otherwise. Prior research has shown that VC backing significantly affects the prospects of a firm at IPO and beyond (Jain & Kini, 2000). *VC prestige* was a dummy variable coded 1 if any of the venture capitalists backing a firm were listed as prestigious by Pollock and colleagues (2010) and 0 otherwise.⁵ Prestigious venture capitalists have been shown to positively affect IPO performance and the ability to attract other prestigious actors (Jain & Kini, 2000; Pollock et al., 2010). *Underwriter prestige* was operationalized using ratings developed by Carter and Manaster (1990) and updated by Ritter (<http://bear.warrington.ufl.edu/ritter/ipodata.htm>). We coded the lead underwriter in a given IPO as prestigious if it received the top ranking in the modified Carter-Manaster ranking system for 2001–04 and 0 otherwise. Controlling for underwriter prestige is important as these are prominent intermediaries that have been found to attract other prominent actors (Chen et al., 2008; Pollock et al., 2010).⁶

⁵ In analyses not included here, we used the counts of prestigious VCs and underwriters (controlling for the total numbers of VCs and underwriters). These measures were not significant, and our primary analyses remained substantively the same.

⁶ Another source of prestige that could be relevant for our analysis is top management team (TMT) prestige (e.g., Higgins & Gulati, 2006; Pollock et al., 2010). While an offering prospectus provides detailed information on a firm's entire top management team, we were unable to find a reliable source of information on full TMT membership or members' backgrounds for the years following IPO. In analyses not reported here, we included controls for TMT prestige and TMT size at IPO. Neither measure had a significant relationship with recruiting a prestigious director. Our other results were unchanged.

⁴ In analyses not reported here we also calculated an alternative measure using the average of the pair-wise overlap in service among each director (e.g., Barkema & Shvyrkov, 2007). The results were the same as reported here.

Time-varying firm characteristics. We also controlled for a number of firm-level characteristics that varied over time. *Firm size* was measured as the natural logarithm of annual sales. This measure was log-transformed to reduce the effects of extreme values. As some of the firms did not have any sales in their year of IPO, we added a 1 to the sales of each company before transforming the values. *Firm age* at IPO was measured as the difference in the number of years between the year of incorporation and the year of IPO. We again log-transformed the variable to minimize the effects of extreme values. *Firm performance* equaled total stockholder return (TSR) for a given year. A commonly used stock market indicator of firm performance (e.g., Sanders & Hambrick, 2007), TSR was calculated as year-end stock price minus year-start stock price, plus dividends paid, divided by year-start stock price. *Board size*, calculated as the total number of directors on a firm's board, has been used in prior research to signify the extent to which resources are available and affect the extent to which firms can signal quality via prestigious outside directors (Certo, Daily, & Dalton, 2001).⁷

CEO tenure. *CEO tenure* is another potential source of power and can also affect the working relationships that a CEO has established with a board. This measure was operationalized as the number of years a CEO had held his/her position at a given firm.

Multiple hires. All else being equal, firms that recruit more than one director in a given year may be more likely to add a prestigious director. *Multiple hires* was a dummy variable coded 1 if a firm recruited more than one director in a given year and 0 otherwise.

Total departures. Recruiting new directors is likely to be a function of director exits; that is, firms are more likely to recruit new directors when incumbent directors leave their boards. This measure was operationalized as the number of directors serving in a previous year who did not stand for

reelection and was included in the first-stage models predicting director recruitment.⁸

Industry dummies. Industry dummies were included because systematic differences could exist between companies in different industries for both the independent and dependent variables. In keeping with prior research (Fischer & Pollock, 2004; Pollock, 2004) five industry dummy variables were included in the analysis: *business services, chemical and allied products, instruments and related products, electronic and other electric products, and retail*. These categories parsimoniously capture the variety of industries represented in the IPO market in 2001–04. Firms were assigned to these categories on the basis of their SIC classifications.

Year of issue and years since IPO. Dummy variables for the *year of issue* were coded 1 if companies went public in 2002, 2003, or 2004 (2001 was the omitted year). We also created dummy variables for each of the *years since IPO*, coded 1 if companies were in their second, third, fourth, or fifth years following their IPO year (year one was the omitted year). We controlled for these variables because a variety of factors associated with when a company went public and how far beyond its IPO it has moved may affect the likelihood it will recruit a prestigious director.

Method of Analysis

Our hypotheses compare the recruiting of a prestigious director to the recruiting of a nonprestigious director. Thus, they are predicated on a recruiting event occurring. However, every firm did not recruit new directors every year. Approximately 55 percent of firms recruited new directors in a given year, with the annual percentages ranging from 50.3 percent in year four to 61.5 percent in year two. To compare the effects of director and CEO prestige and CEO power on the recruitment of prestigious versus nonprestigious directors, we ran two-stage models that predicted whether or not a firm was likely to recruit a new director in the first stage and then predicted director prestige in the second stage. For the analyses using the dichotomous dependent variable, we employed the “heckprob” command in STATA 11.0, which generates a Heckman correction for probit models in which the

⁷ Because group size can influence group functioning in a nonlinear fashion (Yetton & Bottger, 1983), in analyses not reported here we also included board size squared. The squared term was not significant, and our results remained unchanged. We also considered sales growth and net income as two additional firm-level indicators of quality. Neither variable had significant effects, and our other results remained unchanged when they were included in the models.

⁸ In analyses not reported here, we also considered prestigious departures. The results of our hypothesis tests were unchanged.

outcomes in both stages are dichotomous variables. For the analysis using the count measure, we only used the observations in which a recruiting event occurred and employed negative binomial regressions using the “nbreg” command with robust standard errors. STATA does not provide a two-stage selection model for negative binomial regressions; therefore we calculated the inverse of the Mills ratio using the code provided by Hamilton and Nickerson (2003) in a separate probit regression and included it as a control in the count models. In both analyses, we used the number of directors leaving a board, board size, VC backing, CEO pres-

tige, the industry dummies, and the post-IPO year dummies to predict the likelihood of recruiting an outside director in the first-stage models. The number of departures was excluded from the second-stage models (Bascle, 2008; Hamilton & Nickerson, 2003).

RESULTS

Table 1 provides the descriptive statistics and a correlation matrix for all the key variables in the study. To save space and make the tables more readable we do not include the year of IPO, year

TABLE 1
Descriptive Statistics and Correlations for Firm-Level Variables

Variable	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12
1. Prestigious hire	0.34	0.47												
2. Count prestigious hires	0.45	0.69	.90*											
3. Firm age ^a	2.69	0.77	.02	-.05										
4. Firm size ^a	5.23	1.90	-.03	-.05	.41*									
5. Offer size ^a	18.34	0.82	.01	.02	.29*	.45*								
6. Underpricing	0.13	0.18	.00	.00	-.01	.15*	.16*							
7. Total stockholder return	2.35	0.16	.06	.05	.07*	.14*	.24*	.01						
8. Multiple hires	0.23	0.42	.55*	.52*	.05	.06*	.06*	-.01	.11*					
9. Total departures	0.66	0.91	.21*	.22*	.03	.02	.05	-.02	.06	.31*				
10. Board size	7.82	1.75	.22*	.21*	.09*	.21*	.23*	.04	.05	.31*	.06			
11. CEO tenure	6.20	5.37	-.05	-.09*	.11*	.07*	-.06*	-.11*	.00	-.03	-.14*	-.12*		
12. VC backing	0.51	0.50	.03	.02	-.14*	-.22*	-.22*	.09*	-.04	-.02	.00	-.05	.00	
13. VC prestige	0.21	0.41	.00	-.01	-.16*	-.15*	-.16*	.06*	-.04	-.04	.03	-.06*	.04	.51*
14. Underwriter prestige	0.68	0.47	.05	.07	.04	.25*	.41*	.13*	.10*	.06	.07	.11*	-.08*	-.05
15. CEO duality	0.44	0.50	-.06	-.03	.00	.07*	.04	.01	.08*	-.02	-.06	-.05	.26*	-.20*
16. Founder CEO	0.43	0.49	-.07*	-.03	-.30*	-.16*	-.12*	-.13*	-.06	-.06	-.12*	-.15*	.39*	-.05
17. CEO ownership	0.07	0.10	-.12*	-.07	-.11*	-.11*	-.09*	-.06*	-.04	-.04	-.09*	-.15*	.29*	-.01
18. Staggered board	0.69	0.46	-.03	-.05	.12*	.11*	.06	.05	.00	.02	.02	.06	-.03	.11*
19. Outside director ratio	0.79	0.09	.06	.00	.17*	.12*	.14*	.01	.01	.09*	.02	.23*	-.02	.03
20. Average board tenure	4.70	2.21	-.05	-.16*	.23*	.04	-.15*	.01	-.13*	-.12*	-.12*	-.10*	.39*	.17*
21. Board prestige	3.10	2.19	.33*	.36*	-.17*	-.12*	.01	.08*	-.01	.16*	.03	.33*	-.07*	.16*
22. Board prestige squared	14.42	16.57	.29*	.33*	-.16*	-.08*	.04	.11*	-.02	.16*	.01	.36*	-.05	.12*
23. CEO prestige	0.35	0.48	.07*	.08*	-.11*	-.10*	.02	.07*	-.01	.00	-.01	.01	-.02	.04
	13	14	15	16	17	18	19	20	21	22				
13. VC prestige														
14. Underwriter prestige	.01													
15. CEO duality	-.17*	-.03												
16. Founder CEO	-.08*	-.09*	.43*											
17. CEO ownership	-.02	-.25*	.34*	.50*										
18. Staggered board	-.01	.09*	.00	-.10*	-.06*									
19. Outside director ratio	.03	.12*	-.16*	-.24*	-.34*	.05								
20. Average board tenure	.07*	.00	-.03	.05	-.09*	-.03	.01							
21. Board prestige	.05	.10*	-.04	-.09*	-.10*	-.05	.09*	-.05						
22. Board prestige squared	.06	.12*	-.04	-.08*	-.06	-.04	.07*	-.04	.93*					
23. CEO prestige	-.01	-.06*	.09*	.00	-.03	-.03	.01	-.05	.43*	.38*				

^a Logarithm.

* $p < .05$

post-IPO and industry dummies in any of the tables, although they were included in all the regression models. For ease of interpretation, means and standard deviations were calculated using raw data, and log-transformed values were used for all the analyses.

To save space, we do not present the first-stage models predicting the likelihood of recruiting a new director. In all the selection models, board size, number of departures, the dummy variables for the electronic and other electrical products industry, and the first two years post-IPO had positive, significant effects on the likelihood of outside director recruitment. CEO prestige had a negative, significant relationship with the likelihood of director recruitment.

Table 2 presents the results of the second-stage models testing the hypotheses using the dichotomous outcome, and Table 3 presents the results using the count measure. In each table, model 1 represents the baseline model and includes only the control variables. Model 2 adds the main effects of preexisting board prestige and CEO prestige to predict the likelihood of recruiting prestigious directors, as stated in Hypotheses 1 and 2. Models 3–8 add each of the interactions used to test Hypotheses 3 and 4, and model 9 presents the fully saturated model.

Hypothesis 1 predicts that preexisting board prestige will be positively associated with the likelihood of recruiting prestigious directors, but at a diminishing rate. Boards had three prestigious directors on average, and the number of prestigious directors ranged from 0 to 11. The average board size was approximately 8, so slightly over a third of the directors, on average, were prestigious. The coefficient for preexisting board prestige was positive and significant in all models, and the squared term was negative and significant in all models in both Tables 2 and 3, a finding that is consistent with a positive but diminishing curvilinear relationship.

To test the curvilinearity of this relationship, we employed the method developed by Lind and Mehlum (2009) using the “`utest_rev`” command in STATA 11.0. This test calculates the inflection point and determines whether each part of the curve before and after the inflection point, as well as the overall relationship, is significantly different from either a monotone or U-shaped relationship. The analysis of the coefficients in model 2 of Table 2 confirmed a positive but diminishing relationship. The inflection point was 10, which is within the bounds of our data, and while the lower portion

of the curve was significantly different from a monotone relationship, the portion above the inflection point was not. However, when the results from model 2 of Table 3 are used, the relationship is fully curvilinear. The inflection point is 8, and the tests for both the upper and lower portions of the curve, as well as the overall test for curvilinearity, are significant at $p < .002$ or better. Thus, Hypothesis 1 is supported, and our results further suggest that when considering *how* prestigious a new director is likely to be, the relationship actually becomes negative at high levels of board prestige.

Hypothesis 2 predicts that CEO prestige will be positively related with the recruitment of prestigious directors. This hypothesis is not supported in our main effects models; CEO prestige has a negative, nonsignificant relationship with recruiting a prestigious director in Table 2 and with the amount of director prestige in Table 3. This finding held even when CEO prestige was excluded from the first-stage model. However, the main effect becomes significant in some models including interactions. We consider the implications of these findings when we discuss the tests of Hypothesis 4.

Hypothesis 3 argues that the amount of time outside directors have served together on a board will increase the positive relationship between director prestige and the likelihood of recruiting a prestigious director. We tested this hypothesis with interactions between average board tenure and the linear and squared board prestige measures. The results in model 3 of both Tables 2 and 3 show that average board tenure has a negative and significant interaction with the linear term and a positive, significant interaction with the squared term. Further, the main effect of average board tenure becomes positive and significant. To fully consider the nature of this relationship, we graphed the results from model 3 of Table 2 using average board tenure and board prestige one standard deviation below and above their means. Figure 1 illustrates this interaction and shows that although the relationship remains curvilinear in both instances, firms are more likely to recruit a prestigious director when average board tenure is high. Further, the inflection point at which the marginal effect of adding a prestigious director becomes negative and is shifted left, to approximately seven prestigious directors. Curvilinearity tests confirm that this relationship is also now fully curvilinear. The results based on the findings in Table 3 are the same, and

TABLE 2
Results of Second-Stage Heckman Models Predicting Recruitment of Prestigious Directors^a

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
Firm age ^b	0.13 (0.10)	0.25* (0.11)	0.25* (0.12)	0.25* (0.11)	0.25* (0.11)	0.25* (0.11)	0.25* (0.11)	0.24* (0.11)	0.24* (0.11)
Sales ^b	-0.14** (0.05)	-0.13** (0.05)	-0.14** (0.05)	-0.13* (0.05)	-0.13** (0.05)	-0.11* (0.05)	-0.12* (0.05)	-0.12* (0.05)	-0.11* (0.05)
Offer size ^b	0.02 (0.09)	0.05 (0.11)	0.07 (0.10)	0.05 (0.11)	0.05 (0.11)	0.08 (0.10)	0.05 (0.10)	0.06 (0.10)	0.12 (0.10)
Underpricing	0.06 (0.40)	-0.27 (0.46)	-0.39 (0.44)	-0.27 (0.47)	-0.27 (0.46)	-0.42 (0.44)	-0.32 (0.46)	-0.27 (0.45)	-0.53 (0.42)
Total stockholder returns ^c	-0.15 (0.31)	-0.29 (0.36)	-0.29 (0.36)	-0.29 (0.36)	-0.29 (0.36)	-0.27 (0.33)	-0.29 (0.35)	-0.28 (0.36)	-0.26 (0.33)
Multiple hires	0.92*** (0.16)	1.08*** (0.15)	1.10*** (0.15)	1.08*** (0.15)	1.08*** (0.15)	1.12*** (0.15)	1.09*** (0.15)	1.09*** (0.15)	1.14*** (0.15)
Board size	0.08 [†] (0.05)	-0.08 (0.05)	-0.06 (0.05)	-0.08 (0.05)	-0.08 (0.05)	-0.07 (0.05)	-0.07 (0.05)	-0.08 [†] (0.05)	-0.06 (0.05)
CEO tenure	0.01 (0.01)	0.01 (0.01)	0.00 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.00 (0.01)
VC backing	0.33 [†] (0.18)	0.04 (0.19)	0.09 (0.18)	0.04 (0.19)	0.05 (0.18)	0.06 (0.18)	0.07 (0.19)	0.05 (0.19)	0.11 (0.18)
VC prestige	-0.18 (0.18)	-0.11 (0.20)	-0.12 (0.19)	-0.11 (0.20)	-0.11 (0.20)	-0.11 (0.20)	-0.12 (0.20)	-0.13 (0.20)	-0.13 (0.19)
Underwriter prestige	0.03 (0.15)	-0.25 (0.17)	-0.29 [†] (0.16)	-0.25 (0.17)	-0.25 (0.17)	-0.24 (0.17)	-0.25 (0.17)	-0.28 [†] (0.17)	-0.30 [†] (0.16)
CEO duality	0.09 (0.14)	-0.02 (0.16)	0.03 (0.16)	-0.02 (0.16)	-0.04 (0.17)	-0.04 (0.16)	-0.04 (0.16)	-0.02 (0.16)	-0.01 (0.17)
Founder CEO	-0.06 (0.16)	0.03 (0.19)	0.03 (0.19)	0.02 (0.19)	0.02 (0.19)	-0.01 (0.19)	-0.04 (0.21)	0.03 (0.19)	-0.01 (0.20)
CEO ownership	-2.25** (0.88)	-1.68* (0.76)	-1.56* (0.77)	-1.69* (0.80)	-1.66* (0.77)	-1.38 [†] (0.76)	-1.68* (0.76)	-1.66* (0.75)	-0.89 (0.85)
Staggered board	-0.15 (0.14)	-0.05 (0.15)	-0.10 (0.15)	-0.05 (0.15)	-0.05 (0.15)	-0.08 (0.15)	-0.05 (0.15)	0.03 (0.17)	-0.05 (0.16)
Outside director ratio	-1.21 [†] (0.70)	-1.38 [†] (0.81)	-1.50 [†] (0.80)	-1.38 [†] (0.81)	-1.37 [†] (0.81)	-0.10 (0.97)	-1.38 [†] (0.82)	-1.43 [†] (0.81)	-0.20 (0.98)
Average board tenure	-0.03 (0.03)	0.02 (0.04)	0.19** (0.07)	0.02 (0.04)	0.02 (0.04)	0.02 (0.04)	0.02 (0.04)	0.03 (0.04)	0.18** (0.07)
Board prestige		0.52*** (0.08)	0.87*** (0.16)	0.52*** (0.08)	0.52*** (0.08)	0.51*** (0.08)	0.52*** (0.08)	0.53*** (0.08)	0.85*** (0.16)
Board prestige squared		-0.03*** (0.01)	-0.05*** (0.02)	-0.03** (0.01)	-0.03*** (0.01)	-0.03*** (0.01)	-0.03*** (0.01)	-0.03*** (0.01)	-0.05** (0.02)
CEO prestige		-0.18 (0.15)	-0.21 (0.14)	-0.18 (0.17)	-0.20 (0.20)	3.55* (1.41)	-0.25 (0.18)	-0.05 (0.28)	3.85** (1.37)
Board prestige × average board tenure			-0.08* (0.03)						-0.08* (0.03)
Board prestige squared × average board tenure			0.01 [†] (0.00)						0.01 [†] (0.00)
CEO prestige × CEO ownership				0.04 (1.85)					-2.18 (1.90)
CEO prestige × CEO duality					0.07 (0.25)				0.03 (0.29)
CEO prestige × outside director ratio						-4.53** (1.69)			-4.75** (1.63)
CEO prestige × founder CEO							0.27 (0.29)		0.20 (0.38)
CEO prestige × staggered board								-0.22 (0.33)	-0.22 (0.32)

Continued

TABLE 2
(Continued)

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
Constant	0.28 (1.75)	0.13 (1.94)	-0.89 (1.92)	0.13 (1.94)	0.17 (1.94)	-1.63 (2.01)	0.14 (1.93)	-0.22 (1.90)	-3.01 (1.94)
Log pseudo-likelihood	-746.54	-700.79	-697.55	-700.79	-700.76	-697.07	-700.41	-700.46	-693.29

^a $n = 826$.

^b Logarithm.

^c Lagged variable.

⁺ $p < .10$

* $p < .05$

** $p < .01$

*** $p < .001$

the inflection point drops to six. Hypothesis 3 is therefore supported.

Hypothesis 4 argues that the structural and ownership power of a CEO will enhance the effect of CEO prestige on the likelihood that a firm recruits a prestigious director. The results in Table 2 provide partial support for Hypothesis 4. When the CEO prestige by outside director ratio interaction is included in the model, the main effect of CEO prestige is positive and significant ($p < .03$), and the interaction is negative and significant ($p < .02$). None of the other interactions were significant. Figure 2 graphs this interaction for values one standard deviation above and below the mean for the outside director ratio. When the outside director ratio is low, CEO prestige has a positive relationship with recruiting a prestigious director; however, when the outside director ratio is high, the relationship between CEO prestige and recruiting a prestigious director is negative. This finding is consistent with our argument that a prestigious CEO will weight the benefits of a prestigious new outside director more heavily than the costs when she /he feels more secure about being able to maintain her/his discretion but will weight the costs more heavily than the benefits when discretion may be at greater risk.

The results in Table 3 reveal a different pattern of results, although they still provide some support for the positive moderating effect suggested in Hypothesis 4. CEO prestige remained negative and became significant ($p < .05$) when the interactions with CEO duality and founder CEO were included in the models. Both interactions were positive, and the interaction with founder status was significant ($p < .05$), but the interaction with CEO duality was not significant ($p < .11$). Since

both the CEO prestige and founder CEO measures are dummy variables, we assessed the interaction's effect by comparing the coefficients. In keeping with Hypothesis 4, when a prestigious CEO is not a firm's founder, new director prestige is reduced; however, when the prestigious CEO is also the founder, the new director is likely to be more prestigious.

The main effects for some of the structural and ownership power measures were also significant in Table 3. The outside director ratio had a negative, significant relationship ($p < .001$) and founder CEO status had a positive, significant relationship ($p < .002$) with the amount of new director prestige. These findings are consistent with our arguments that more powerful CEOs are less threatened by a more prestigious new director.

Thus far we have treated preexisting board prestige and CEO prestige categorically: either you are prestigious by virtue of possessing at least one type of prestigious affiliation, or you are not. This approach is consistent with prior research (e.g., Chen et al., 2008; Higgins & Gulati, 2006; Pollock et al., 2010) and our research question. However, like newly recruited directors, CEOs and existing directors may have more than one type of prestigious affiliation. To explore whether the cumulative amount of prestige held by a board and a CEO was consequential, we calculated cumulative prestige on the basis of all of the prestigious affiliations of a CEO and a board and reran our models. The results of this analysis were the same as reported here for both dependent variables.

Another assumption we made in our analysis was that all three types of prestige were equivalent. However, it is possible that different prestige values are associated with each type of prestigious affiliation. We explored this issue by

TABLE 3
Results of Negative Binomial Regression Models Using the Count Measure of Prestige^a

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
Firm age ^b	-0.03 (0.07)	0.15* (0.07)	0.15* (0.07)	0.15* (0.07)	0.16* (0.07)	0.16* (0.07)	0.15* (0.07)	0.16* (0.07)	0.17* (0.07)
Sales ^b	-0.02 (0.03)	0.00 (0.03)	0.00 (0.03)	0.00 (0.03)	0.00 (0.03)	0.00 (0.03)	0.02 (0.03)	0.00 (0.03)	0.00 (0.03)
Offer size ^b	0.00 (0.06)	-0.01 (0.06)	0.01 (0.06)	-0.01 (0.06)	-0.02 (0.06)	0.00 (0.06)	-0.02 (0.06)	-0.01 (0.06)	-0.01 (0.06)
Underpricing	0.18 (0.25)	-0.12 (0.23)	-0.18 (0.23)	-0.13 (0.23)	-0.15 (0.23)	-0.13 (0.23)	-0.15 (0.23)	-0.12 (0.23)	-0.23 (0.23)
Total stockholder returns ^c	-0.20 (0.18)	-0.13 (0.18)	-0.15 (0.18)	-0.14 (0.18)	-0.14 (0.18)	-0.11 (0.19)	-0.13 (0.19)	-0.14 (0.18)	-0.13 (0.19)
Multiple hires	0.99*** (0.09)	0.61*** (0.09)	0.61*** (0.08)	0.62*** (0.09)	0.62*** (0.09)	0.62*** (0.09)	0.61*** (0.09)	0.61*** (0.09)	0.62*** (0.09)
Board size	0.06 [†] (0.03)	-0.08** (0.03)	-0.07* (0.03)	-0.07** (0.03)	-0.07* (0.03)	-0.07* (0.03)	-0.07* (0.03)	-0.08** (0.03)	-0.06* (0.03)
CEO tenure	0.01 (0.01)	0.00 (0.01)	0.00 (0.01)	0.00 (0.01)	0.00 (0.01)	0.00 (0.01)	0.00 (0.01)	0.00 (0.01)	-0.01 (0.01)
VC backing	0.27** (0.11)	0.18 [†] (0.10)	0.20* (0.10)	0.18 [†] (0.10)	0.18 [†] (0.10)	0.18 [†] (0.10)	0.18 [†] (0.10)	0.18 [†] (0.10)	0.19 [†] (0.10)
VC prestige	-0.18 (0.12)	-0.03 (0.11)	-0.03 (0.11)	-0.03 (0.11)	-0.01 (0.11)	-0.04 (0.11)	-0.04 (0.11)	-0.02 (0.11)	-0.03 (0.11)
Underwriter prestige	0.07 (0.09)	-0.12 (0.10)	-0.12 (0.10)	-0.11 (0.10)	-0.11 (0.10)	-0.12 (0.10)	-0.10 (0.10)	-0.11 (0.10)	-0.10 (0.10)
CEO duality	0.04 (0.11)	-0.03 (0.10)	-0.01 (0.10)	-0.03 (0.10)	-0.12 (0.12)	-0.03 (0.10)	-0.07 (0.10)	-0.02 (0.10)	-0.08 (0.12)
Founder CEO	0.13 (0.12)	0.25* (0.12)	0.26* (0.12)	0.25* (0.12)	0.25* (0.12)	0.26* (0.12)	0.14* (0.13)	0.26* (0.12)	0.18 (0.14)
CEO ownership	-1.75* (0.82)	-0.89 (0.56)	-0.75 (0.56)	-1.06 (0.73)	-0.88 (0.56)	-0.80 (0.56)	-0.87 (0.57)	-0.91 (0.56)	-0.39 (0.73)
Staggered board	-0.19* (0.09)	-0.06 (0.08)	-0.07 (0.08)	-0.06 (0.08)	-0.05 (0.08)	-0.07 (0.08)	-0.04 (0.08)	-0.10 (0.12)	-0.12 (0.11)
Outside director ratio	-1.10* (0.44)	-1.43*** (0.37)	-1.43*** (0.37)	-1.46*** (0.39)	-1.45*** (0.37)	-0.98 [†] (0.56)	-1.48*** (0.37)	-1.41*** (0.38)	-0.98 [†] (0.56)
Average board tenure	-0.03 (0.02)	-0.01 (0.03)	0.13 (0.06)	-0.01 (0.03)	-0.01 (0.03)	-0.01 (0.03)	-0.01 (0.02)	-0.01 (0.03)	0.13 (0.06)
Inverse Mill's ratio	-0.40* (0.19)	0.05 (0.19)	0.04 (0.19)	0.05 (0.19)	0.08 (0.19)	0.03 (0.19)	0.08 (0.19)	0.06 (0.19)	0.05 (0.20)
Board prestige (H1)		0.53*** (0.06)	0.87*** (0.15)	0.52*** (0.07)	0.52*** (0.06)	0.53*** (0.06)	0.52*** (0.06)	0.53*** (0.06)	0.86*** (0.15)
Board prestige squared (H1)		-0.04*** (0.01)	-0.07*** (0.02)	-0.04*** (0.01)	-0.03*** (0.01)	-0.04*** (0.01)	-0.03*** (0.01)	-0.04*** (0.01)	-0.07*** (0.02)
CEO prestige (H2)		-0.09 (0.08)	-0.09 (0.08)	-0.12 (0.09)	-0.19* (0.10)	0.68 (0.62)	-0.21* (0.10)	-0.14 (0.13)	0.45 (0.65)
Board prestige × average board tenure (H3)			-0.08* (0.03)						-0.08* (0.03)
Board prestige squared × average board tenure (H3)			0.01* (0.00)						0.01* (0.00)
CEO prestige × CEO ownership (H4)				0.56 (0.98)					-0.89 (1.10)
CEO prestige × CEO duality (H4)					0.26 (0.16)				0.11 (0.18)
CEO prestige × outside director ratio (H4)						-0.97 (0.77)			-0.92 (0.77)

Continued

TABLE 3
(Continued)

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
CEO prestige × founder CEO (H4)							0.35*		0.31
							(0.17)		(0.20)
CEO prestige × staggered board (H4)								0.08	0.14
								(0.17)	(0.17)
Constant	0.24	0.20	-0.64	0.26	0.39	-0.42	0.45	0.32	-0.81
	(1.06)	(1.18)	(1.21)	(1.17)	(1.17)	(1.32)	(1.16)	(1.20)	(1.35)
Log pseudo-likelihood	-513.95	-441.94	-440.60	-441.87	-441.35	-441.59	-440.96	-441.89	-439.17

^a $n = 451$.

^b Logarithm.

^c Lagged variable.

⁺ $p < .10$

* $p < .05$

** $p < .01$

*** $p < .001$

creating a weighted average value of prestige for each director (both existing and newly recruited) and CEO. Given that rarity is often associated with value, we used the relative frequency of each type of prestige to create weighting factors, operationalized as one minus the frequency of occurrence in our sample. Approximately 64 percent of the directors and executives had education prestige; 24 percent possessed employment prestige; and 12 percent possessed directorship prestige. Thus, education prestige received the lowest weighting, and directorship prestige re-

ceived the highest weighting. The weights were then multiplied by the sources of prestige for each individual and divided by the total sum of the weights to get the weighted average. We used the “heckman” command in STATA to conduct this analysis since the dependent variable is now a continuous measure. The results for board prestige continue to remain robust and are the same as presented here. As in the event count models, CEO prestige has a negative main effect, but it is now consistently significant ($p < .05$). However, the interaction with outsider ratio is not signifi-

FIGURE 1
Interaction between Board Prestige and Average Board Tenure

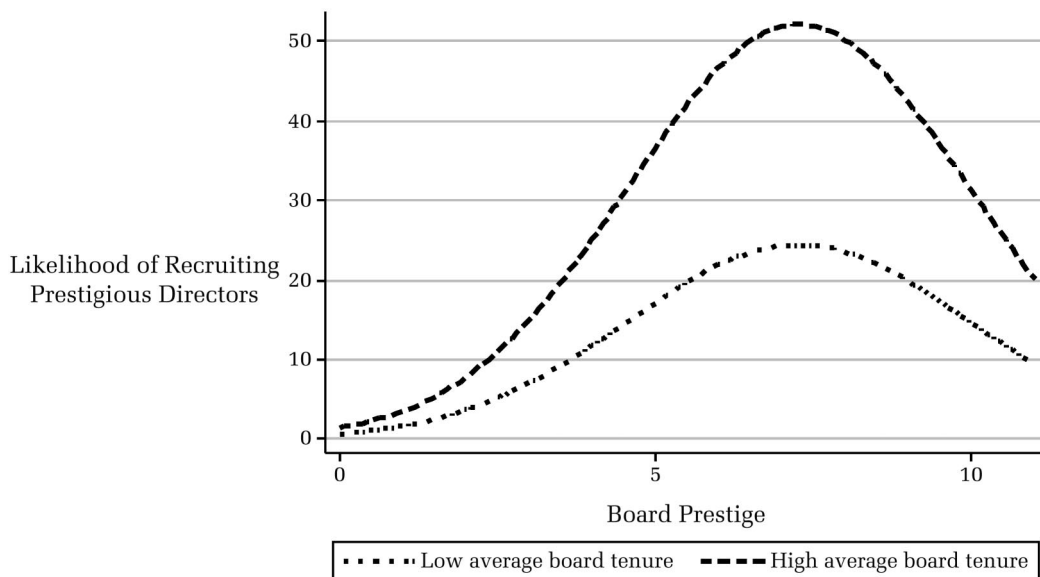
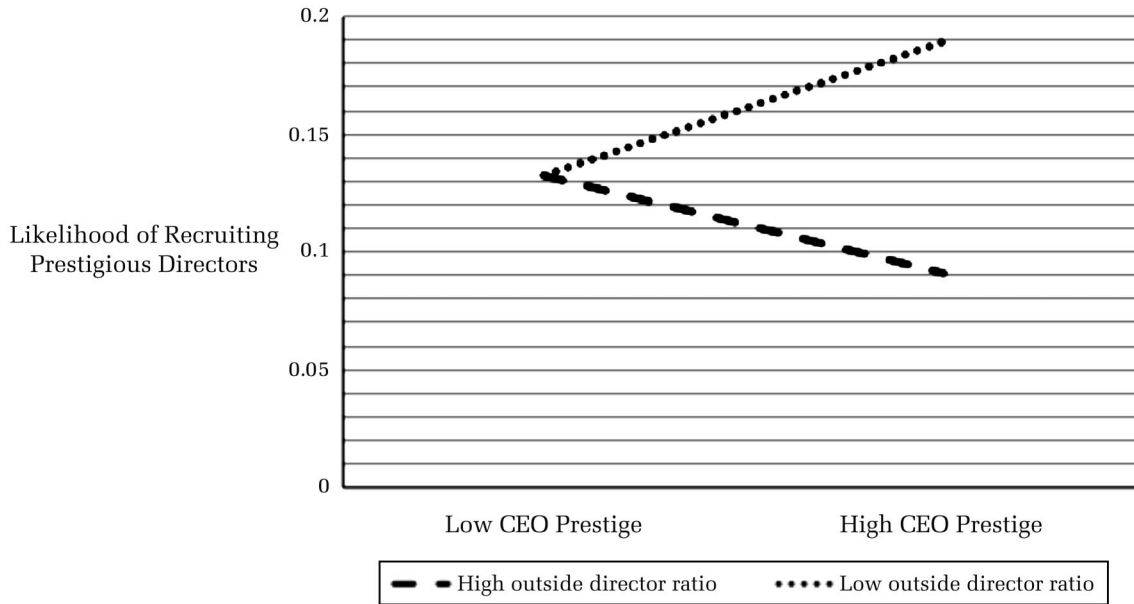


FIGURE 2
Interaction between CEO Prestige and Outside Director Ratio



cant, and the main effect for CEO prestige is not significant when the interaction is included.

DISCUSSION

Following Podolny's (1993) status-based model of market competition, researchers have largely assumed that firms seek to forge associations with prestigious actors if they have the ability to do so. Thus, whereas prior research has focused on the benefits of homophily and the potential to increase their own status as the driving logics for firms' seeking prestigious affiliations (Fischer & Pollock, 2004; Khaire, 2010; Stuart et al., 1999), it has not considered whether prestigious directors may be perceived as less desirable in some circumstances or offered theory explaining why CEOs and boards may not want to recruit a prestigious director even when they have the ability to do so.

We theorize about the role local status hierarchies and CEO and director power play in shaping this decision. Accounting for the power bases of these central actors enables us to theoretically parse the relative effects of homophily and power in the context of recruiting prestigious directors, highlighting the costs of forging prestigious affiliations and contributing to the growing entrepreneurship and strategy literatures examining the contextual factors affecting the governance of

young firms (e.g., Certo et al., 2001; Chen et al., 2008).

Theoretical Implications

We argued that recruiting prestigious directors can alter the work routines and local status hierarchies within a board, thereby affecting the relative power and standing of incumbent directors. Our finding that the amount of existing prestige a board possessed had positive, curvilinear relationships with the likelihood of recruiting a prestigious director and with the total prestige of the new director supports our argument. The marginal increase in the likelihood of recruiting a new prestigious director became smaller for each additional existing prestigious director. And although we did not hypothesize a fully curvilinear relationship, our results showed that at extreme levels (approximately two standard deviations above the mean) the relationship between existing board prestige and new director prestige became negative, suggesting the perceived costs of a prestigious new director outweighed the benefits at these levels. Although our findings should be treated as preliminary, taken together these results suggest that both whether a prestigious new director is recruited and how prestigious that new director is both change as a function of the

amount of existing board prestige. Further, these changes occur at somewhat different rates, with the amount of prestige decreasing a little more rapidly. Future research should continue to explore these dynamics.

We also found that the amount of time directors had worked together influenced these relationships. Our results suggest that high average board tenure increases the likelihood a prestigious director will be recruited, as well as the total prestige of the director recruited. When a board has lower average tenure, the local status order may still be in flux, and adding a new prestigious director at this juncture may be perceived as more threatening because individual directors' positions in the status order may be more precarious and political contests more prevalent. Conversely, serving together for longer periods of time could create clarity and stability in the local status order that decrease the perceived threat of adding a prestigious new director. These findings suggest local status order concerns can create boundary conditions on how homophily influences director recruitment decisions, affecting a board's signaling value (Pollock et al., 2010) and the board capital available (Hillman & Dalziel, 2003).

When a new director was recruited, CEO prestige had a negative relationship with the likelihood the director was prestigious when CEO structural power was low. However, when a firm recruited a new director and its CEO possessed more structural power—reflected in a low outside director ratio—the relationship between CEO prestige and the likelihood of recruiting a prestigious new director became positive. Although speculative, this finding suggests that when new directors are recruited and CEOs feel secure in their structural power relative to their boards, prestigious CEOs focus more on the benefits of gaining additional prestigious affiliations than on the potential loss of discretion, but when they are less secure in their structural power, they focus more on the threats associated with prestigious new directors.

The results of our analyses predicting the *amount* of prestige a new director possessed when a new director was recruited yielded a more nuanced pattern of results. CEO prestige generally had a negative, nonsignificant relationship that became significant when a CEO was also board chairman or company founder, although only the latter interaction effect was significant. These findings are consistent with our previous findings, as well as the general argument that a prestigious CEO is likely to

be less threatened and to focus on the benefits rather than the costs of a prestigious new director when the CEO has other sources of power.

Our analyses also showed that founder CEOs and CEOs with fewer outsiders on their boards were likely to recruit more prestigious directors, while CEOs who own larger percentages of stock were likely to recruit less prestigious directors. Although they should be treated as preliminary, these findings, combined with the positive moderating effects previously discussed, may have significant implications for governance research and practice. Agency theory (Fama, 1980; Fama & Jensen, 1983) and current governance “best practices,” as reflected, for example, in the Sarbanes-Oxley Act, prescribe very high levels of outside director representation on boards as a corrective for executive self-interest. Further, the received wisdom among venture capitalists is that it is more often than not best to replace founder CEOs with “more experienced” leadership (Pollock et al., 2009; Wasserman, 2003). Our findings suggest that these prescriptions may have the unintended consequence of reducing the likelihood a company recruits the types of directors who may be more active and who bring greater human and social capital to a board (e.g., D’Aveni & Kesner, 1993; Hillman & Dalziel, 2003). Thus, like recent research on multiple agency (e.g., Arthurs, Hoskisson, Busenitz, & Johnson, 2008; Kroll et al., 2007) and the benefits of founder CEO presence (e.g., Fischer & Pollock, 2004; Nelson, 2003), our results suggest that rather than treating these decisions in a “one size fits all” manner, future theorizing in corporate governance on the roles of board structure and founder CEOs should more fully consider both the benefits and costs of the actions taken and recognize that which predominates may be contingent on contextual characteristics.

Our findings (1) that CEO prestige can sometimes have a negative relationship with recruiting a new director and the amount of prestige a new director possesses and (2) that greater CEO stock ownership can also lead to recruiting less prestigious directors highlight that having a powerful CEO can be a double-edged sword. Further, it suggests that assuming different dimensions of CEO power are equivalent in their consequences for firms may be inappropriate. Future research should continue to explore the ways in which different sources of CEO power vary and how they may combine in different ways to influence organizational outcomes.

More generally, another contribution of this study is to the literature on the microprocesses

underlying corporate board functioning. While boards are comprised of members of the corporate elite (Davis et al., 2003), they are also groups, and they experience typical group processes such as conflict, teamwork, cohesiveness, and consensus (Finkelstein & Mooney, 2003; Forbes & Milliken, 1999). A considerable amount of research has examined the demographic characteristics (e.g., Dalton et al., 1998; Dalton, Daily, Johnson, & Ellstrand, 1999), social and friendship ties (e.g., Westphal & Zajac, 1995; Zajac & Westphal, 1996), and interlock patterns (e.g., Davis et al., 2003) of corporate boards, but it has not explicitly considered the nature of directors' status hierarchies—either their standing in the broader director labor market or their standing in a board's local status hierarchy. We begin to consider how local status hierarchies operate, as directors seek to balance the need to affiliate with similar others with the need to preserve their standing and power within boards. By explicating the nuances of directors' local status hierarchies, we offer theoretical insights into a very important social characteristic pervasive among the upper echelons of corporate hierarchies.

Future Research Directions

Like all studies, this study has limitations that create opportunities for future research. The first opportunity arises from the actor characteristics we considered. We examined CEO and board characteristics that affected the desire to recruit prestigious directors, and we controlled for the number of departures from boards. However, individual-level factors, such as the type of director who exits, the tenure of an exiting director, and the amount of stock he/she owns may also be important. For example, when VC directors who invested in a company leave its board, the firm may need to replace a different set of skills and resources, and an actor who had the ability to wield a great deal of power because of the stock controlled no longer influences board deliberations. Thus, the disruption to the internal status structure may be more significant. Prior research has also shown that firms sometimes stack their executive teams and boards with prestigious individuals right before IPO in a "hurried and careless fashion" (Chen et al., 2008: 972); thus, the departure of prestigious but shorter-tenured directors who joined just prior to an IPO may lead to different recruiting decisions than the departure of longer-tenured prestigious directors.

Thus, the type and number of directors who leave are likely to be important topics for future research.

A second opportunity for future research comes from the fact that we did not explicitly consider what happens when prestigious directors and CEOs differ in their preferences. To explore this issue further, we conducted a series of analyses that explored interactions among all of the measures of CEO power, including CEO prestige and board prestige. None of these interactions were significant. Nonetheless, future research should continue to explore the sociopolitical dynamics of CEO-board interactions and how they influence firm outcomes.

A third opportunity arises from the fact that we only considered whether a single prestigious director was recruited. The patterns observed might have varied as a function of the number of prestigious directors recruited (e.g., Pollock et al., 2010). Unfortunately we were not able to explore this issue in detail because more than two prestigious directors were recruited in less than 1 percent of our firm-year observations. Future research using other samples and contexts with more variation in the number of prestigious actors involved should continue to explore this issue.

A fourth opportunity arises from the fact that we were unable to consider the fourth source of CEO power identified by Finkelstein (1992): expert power. It is possible that CEOs with greater industry or technical expertise may feel differently about recruiting prestigious directors than CEOs with more general forms of experience and expertise. For example, CEOs with high expert power may be less threatened by prestigious directors, because even though they are prestigious they may be less likely to challenge the CEOs' expertise and decisions. Future research should continue to explore this issue.

More generally, because our measures of prestige are based on work and educational relationships, we are unable to disambiguate the effects of prestige and expertise in our analysis. However, our theoretical model and the empirical relationships observed are consistent with explanations based on prestige, and the same logic is unlikely to apply equally to higher levels of expertise. Nonetheless, future research should continue to explore this issue in other contexts that allow for independent measurement of individuals' levels of prestige and expertise.

Conclusion

Overall, this study has significant implications for developing theory about newly public firms that

strive to succeed during the rather turbulent years following the transformational changes at IPO (Fischer & Pollock, 2004). Understanding how firms navigate the perceived costs and benefits of adding prestigious directors to their boards is important to gain a richer understanding of how entrepreneurial firms transition through different phases of their life cycle, and how different governance characteristics shape this process.

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