

EXTERNAL AGENCY: REDEFINITION OF EX ANTE
VALUE IN AGENCY RELATIONSHIPS

By

OLEG V. PETRENKO

Bachelor of Business Administration
The University of Central Oklahoma
Edmond, Oklahoma
2004

Master of Business Administration
The University of Central Oklahoma
Edmond, Oklahoma
2009

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EXTERNAL AGENCY: REDEFINITION OF EX
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Dissertation Approved:

Dr. Federico Aime

Dissertation Adviser

Dr. Gerry McNamara

Dr. Michael Mannor

Dr. Aaron Hill

Dr. Stephen Humphrey

Dr. Karan Flaherty

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Name: OLEG V. PETRENKO

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Abstract:

In this dissertation, in response to mixed empirical findings and theoretical criticism of Agency Theory, I raise a broader question: are there agency behaviors that are not considered within traditional renderings of Agency Theory? I argue that, because agents vary in their mobility, human market imperfections and their ex ante costs do not disappear with creation of a contract and cannot be assumed away. These costs are constantly redefined and must be included in the general model of agency that I develop. I define certain behaviors that are ex ante driven to be external agency behaviors.

In this dissertation I define five aspects of agent mobility that facilitate ex ante driven external agency: 1) availability of alternative contracts; 2) heterogeneity in general human capital; 3) heterogeneity in social capital; 4) heterogeneity in agent's charisma; and 5) outcome measurability. I develop a theoretical model of how agent mobility moderates the fundamental theoretical relationships in Agency Theory and develop a set of hypotheses to test my arguments.

The results of this dissertation provide support for the conceptualization of agent's mobility as a previously unexplored alignment mechanism in the agency relationship that lowers the downside risk of the agent and can enhance the alignment of risk preferences and goals between the agent and the principal. I find support for the existence of ex ante agency costs that are associated with the expansion of market for contracts via diversification. The results also provide evidence to the costs of agent's mobility in terms of higher increases in total compensation for more mobile agents.

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CHAPTER I

INTRODUCTION

In the extensive literature on Agency Theory (Jensen and Meckling, 1976; Eisenhardt, 1989; Kosnik, 1987; Oviatt, 1988; Rediker and Seth, 1995), scholars have studied an array of governance mechanisms that should theoretically help correct the market failures implicit in the original Agency Theory conceptions (Smith, 1776/1952; Berle and Means 1932/2009) and “solve” the agency problem (Mahoney, 2005; Fama and Jensen, 1983a, 1983b; Fama 1980; Jensen and Meckling, 1976). For example, researchers have argued that proper incentive alignment between performance based contingent pay (such as bonuses), stock incentives, and fixed salary should result in a contract that minimizes agency costs (Jensen and Meckling, 1976; Jensen and Fama, 1983a; Jensen and Murphy, 1983; Eisenhardt, 1989). Other core arguments of Agency Theory are that ownership by the management reduces agency costs leading to improved performance (Jensen and Murphy, 1990) and proper incentives, such as stock options, lead to increased risk-taking by the hired managers (Beatty and Zajac, 1994; Zajac and Westphal, 1994).

While some went as far as declaring the agency problem solved (Baker, Jensen, and Murphy, 1988), the empirical evidence has provided a track record of inconsistent findings for fundamental theoretical relationships in Agency Theory. For example, the expected relationships between CEO pay and market performance (Jensen and Murphy, 1990), pay variance and financial performance (Tosi, Werner, Katz, and Gomez-Mejia, 2000; Frydman and Jenter, 2010), and managerial incentives and risk taking (Beatty and Zajac, 1994; Zajac and Westphal, 1994;

Stroh, Brett, Bauman, and Reilly, 1996; Bloom and Milkovich, 1998; Carpenter, 2000; Lewellen, 2001) have been plagued with mixed and negative findings, echoed in scholars concerns about the usefulness and accuracy of agency arguments (Perrow, 1986; Mitnick, 1992; Zajac and Westphal, 1994; Kiser, 1999; Shapiro, 2005).

These mixed findings about the effects of theoretically solid governance mechanisms on agency behaviors that are “well documented in the world of experience” (Mahoney, 2005: 139) and produce agency costs that “are as real as any other costs” (Jensen and Meckling, 1976: 357) raise the issue of finding an explanation to these inconsistent findings that is theoretically sound and can be empirically supported. The first possible explanation is that Agency Theory is fundamentally flawed. However, even the critics of the theory do not reject the fundamental arguments that explain the theoretical mechanisms of the agent-principal relationship (Arrow, 1985; Eisenhardt, 1989; Mahoney, 2005; Westphal and Zajac, 2013). A second explanation can be that the theorized remedies might not address agency problems. This issue has been widely debated in the context of the ever-increasing compensation of top executives (Jensen and Murphy, 1990; Tosi, Werner, Katz, and Gomez-Mejia, 2000; Dalton, Daily, Certo, and Roengpitya, 2003; Nyberg, Fulmer, Gerhart, and Carpenter, 2010). Finally, a third explanation for the mixed findings can be that our models are not complete. Rather than rejecting Agency Theory or its remedies, lies in identifying missing elements, which could explain contingencies that affect the effectiveness of the remedies proposed by Agency Theory (Tosi and Gomez-Mejia, 1989; Pepper and Gore, 2012; Wiseman, Cuevas-Rodriguez, and Gomez-Mejia, 2012). This is the most fruitful avenue for two reasons. First, this approach follows numerous calls for expanding the rational choice model of Agency Theory towards a more socialized theory (Perrow, 1986; Shapiro, 2005; Wiseman, Cuevas-Rodriguez, and Gomez-Mejia, 2012; Westphal and Zajac, 2013), an approach that has been called “the most promising” (Kiser, 1999, p. 146) compared to other reconceptualizations of Agency Theory. An example is the work on Behavioral Agency Theory (Wiseman and Gomez-Mejia, 1998; Sanders and Carpenter, 2003; Pepper and Gore, 2012).

Second, focusing on missing elements to explain contingencies can help improve the theory without rejecting its well-established assumptions (e.g., information asymmetry, moral hazard, and the risk of opportunistic behavior). Therefore, I choose this route and ask a broad question: are there agency behaviors that are not considered within traditional renderings of Agency Theory and may help understand the patterns of mixed results?

In Jensen and Meckling's (1976) definition, a firm is a "nexus of contracts." An agency relationship is essentially a human capital contract. Agency Theory has fundamentally examined the economic problem of configuring a governance structure around the agency contract that minimizes the agency costs of a relationship between a principal and an agent by efficiently inducing the agent to act on the principal's interest, even in the presence of imperfect information and visibility of the agent's actions and decisions. This examination, then, starts with the contract and looks at the efficient reduction of ex post costs of agency relationships through contract design (e.g., pay structure) and other governance structures. It implicitly assumes that ex ante costs of agency relationships are inexistent in the presence of a contract. By this I mean that, once the contract is negotiated, human labor market imperfections and their costs (e.g., executive bargaining power, imperfect information about executives' value by labor market competitors) are assumed away in the terms of the contract. While ex ante costs tend to disappear with contracting in most classic property non-human resource contracts, I argue in this dissertation that this is not the case in human resource contracts, and that there are opportunities for agency behaviors implicit in ex ante costs of agency contracts that have not been adequately considered in agency theorizing and may provide insights to extend the implications and applicability of the theory. Labor market participants are less imperfectly mobile than other more tangible resources and therefore labor contracts are not able to limit the subsequent exposure of an agency relationship to ex ante costs and the agency behaviors that may help promote them.

Particularly in the case of key personnel, such as top business executives, the likelihood of various executive market imperfections surviving the contractual agreement is largely contingent on structural

and behavioral conditions surrounding the agent and cannot be assumed away. This may be best explained by illustration. Suppose it is perceived, a posteriori to the establishment of the contract, that by utilizing the resources (e.g., financial, positional, informational, social, structural) available to the agent because of her/his position in a firm, she/he can gain a positional opportunity in the market for executives that provides her/him with bargaining advantage for improved contracts with her/his present or other principals (or for other personal gains). The agency behaviors repertoire available to the agent may then include behaviors that increase ex-post (traditional Agency Theory) costs, but also agency behaviors that increase the new type of ex ante driven agency costs for which I argue in this dissertation. For example, an agent may create alliances with organizations in other industries that expand the agent's executive market; or invest in projects or strategic activities that expand his/her exposure to potential new principals. Therefore, key human resources, in particular top executives under structural conditions that can be affected by their own agency behaviors, have the ability to perfect their mobility enough to pursue personal gain in conditions of imperfect information and visibility of the agent's actions and decisions.

The purpose of this dissertation is to develop a general model of ex ante agency costs and behaviors that integrates insights from the traditional Agency Theory logic, property rights theorizing, exchange theory, and economic theory about factor markets for human resources in order to extend agency theorizing to behaviors directed to the market for alternative contracts. In doing so, this study adopts the economic perspective of a rational and self-interested agent, but situates that agent in a social (market) context. Such reconceptualization of an agency relationship provides several important theoretical contributions. First, this study develops a conceptual model of agent mobility, which is a composite latent construct that facilitates the ex ante driven agency behaviors. The dual nature of agent mobility includes the agent's access to alternative contracts on the demand side, and the agent's valued resources and the market's perception of those resources on the supply-side. On the demand side, the availability of alternative contracts increases the mobility of the agent. The supply-side

aspects of agent mobility include general human capital, breadth of the social capital, charisma, and outcome measurability. As the agent's supply and/or the market's perception of those resources increases, the agent becomes more mobile. This mobility, as a unique characteristic of key human resources, facilitates the external agency behaviors and the ex ante agency costs associated with them.

Second, the ex ante agency costs and agent mobility, which facilitates them, interact with the traditional ex post agency costs. This results in agent mobility negatively moderating the core relationships of Agency Theory. Specifically, the effect of stock option incentives on risk taking, which is moderated by agent mobility such that highly mobile and highly immobile agents become less sensitive to incentives. Similarly, agent mobility negatively moderates the relationship between managerial ownership, contingent pay and performance. Essentially, the market for CEO talent acts as an alignment mechanism that moderates other mechanisms of the traditional Agency Theory.

Testing for the main effect of those relationships can yield insignificant findings as it may seem absent if one is to exclude the diminishing effect of ex ante agency costs from the model. Therefore, including both ex post and ex ante costs of agency relationship can explain inconsistent the findings in empirical research and extend our understanding of CEO agency behaviors. Neglecting mobility as an alignment mechanism has, in my view, resulted in a theory of solutions to the agency problem that ignores the social (market) emplacement of the contract. If opportunities exist to expand the value of the contract by the market alternatives to the contract or to renegotiate the present contract, behaviors that may direct decision making to this purpose are also agency type behaviors but may result in a contextual alignment of CEO behaviors unforeseen in previous theorizing. Additionally, firms may be willing to focus on the mobility of their top executives as a further alignment mechanism making this a key unexplored aspect of the agency behavior and a valuable governance tool. It is also important to know that agents may use organizational resources to enhance their mobility as further evidence of an agency behavior.

Finally, I show that the agent's behavior and motivation, while still rational, are socially situated and cannot be isolated to a single contract. This oversimplification of locus of contract assumes away ex ante agency costs leading to simplistic, and possibly incorrect, conclusions about the agent's behavior. More specifically, less mobile agents might look for ways to increase their mobility and engage in agency behaviors that provide personal benefit without much regard for the cost to the firm. For example, diversification into unrelated industries might not result in performance improvement for the firm, but rather become a mechanism to increase the availability of alternative principals for the agent. More mobile agents, on the other hand, might choose not to enter a contract with another principal, but rather renegotiate the current contract. Thus, compensation should increase more rapidly for mobile agents.

I aim to provide a general view of agency contracts that includes both ex post (internal aspect) and ex ante agency costs (external aspect). Specifically, the core argument of this dissertation is that because agents are not imperfectly mobile (Coff, 1997; Campbell, Coff, Kryscynski, 2012), the ex ante agency costs do not disappear with creation of a contract, but may rather be constantly redefined by the agents via external agency behaviors that expand their mobility. Extending Agency Theory to include the ex ante agency costs addresses an important limitation of the current theory, which relies on an overly simplistic locus of the contract that is at the center of the agency relationship. The inclusion of mechanisms for the expansion of agent mobility, such as competition for alternative contracts and agent heterogeneity, enhances Agency Theory to become socially and behaviorally oriented, therefore responding to recent calls in strategic management literature that see the traditional agency logic as undersocialized (Pepper and Gore, 2012; Martin, Gomez-Mejia, Wiseman, 2013; Westphal and Zajac, 2013).

CHAPTER II

EXTERNAL AGENCY AND AGENT MOBILITY

In this chapter, I start with a brief survey of Agency Theory, its core ideas and assumptions. Then I proceed to theoretically define the constructs introduced in this dissertation. I discuss aspects of agent mobility (availability of alternative contracts, heterogeneity in human and social capital, heterogeneity in individual dispositions and outcome measurability) that facilitate ex ante driven external agency behaviors.

Survey of Agency Theory

The roots of Agency Theory can be traced to Adam Smith's (1776/1952) recognition that managers of joint-stock companies, who manage other people's money, cannot be expected to watch over others' capital with the same vigilance as if it were their own. This concept was further developed when Berle and Means (1932/2009) brought attention to the separation of ownership that "produces a condition where the interests of owner and of ultimate manager may, and often do, diverge, and where many of the checks which formerly operated to limit the use of power disappear" (p. 7). In their work, Berle and Means (1932/2009) were the first to state that personal gains (both pecuniary and nonpecuniary) can be a motivator for management's agency behaviors. They also acknowledged the power and information asymmetry between owners (shareholders) and management: "the stockholder is therefore left as a matter of law with little more than a loose expectation that a group of men, under a nominal duty to run the

enterprise for his benefit and that of others like him, will actually observe this obligation” (p. 244).

Several decades later after Berle and Means’s (1932/2009) work, scholars in economics and political science working seemingly independently started to create a formal theory of agency (Shapiro, 2005; see Mitnick, 2006 for a summary of origins of Agency Theory). While Ross (1973) should be credited with originating economic Agency Theory (Shapiro, 2005; Mitnick, 2006), Jensen and Meckling (1976) applied agency ideas to the theory of the firm, starting a stream of empirical and theoretical work in the agency domain. As economists continued their work on general Agency Theory, researchers in strategic management adopted this approach to study agency issues in the contexts of firms and corporate governance. By the dawn of 21st century, Agency Theory became influential in strategic management (Mahoney, 2005; Eisenhardt, 1989; Oviatt, 1988; Kosnik, 1987; Rediker and Seth, 1995).

An agency relationship is one where one party (agent) acts on behalf of another (principal) (Shapiro, 2005; Eisenhardt, 1989). An agency relationship is a ubiquitous feature of economic life (Arrow, 1985). This relationship exists in many contexts – doctors acting on behalf of their patients, or lawyers working on behalf of their clients. In the management context, it is a relationship between the owner(s) of the firm and the manager. Therefore, the focus of Agency Theory is on the contractual agreement between the two parties (Jensen and Meckling, 1976; Williamson, 1990). Agency theorists agree that the first-best contract is not possible in agency relationships, because of information asymmetry in situations where the agent’s work is not readily observable and the outcomes of agents’ actions are determined not only by their effort, but also by factors beyond their control (Levinthal, 1988). Therefore, Agency Theory focuses on the “second best” contract solutions, which are subject to a number of assumptions.

The first major assumption of Agency Theory is that both parties have their own interests and that these interests are not necessarily aligned (Berle and Means, 1932/2009; Ross, 1973). The interests of owners involve primarily increases in their personal wealth by maximizing returns on the capital they invested in the firm. Managers, on the other hand, are primarily interested in the pecuniary and nonpecuniary benefits they receive from their employment such as salary, bonuses, prestige, power and perks associated with their position. Agency Theory assumes that agents behave rationally to maximize their value appropriation from the contractual relationship, while principals behave rationally in their desire to maximize returns on their invested capital.

Interest divergence is closely associated with the assumption of self-interest. It is important to distinguish self-interest from opportunism (Jensen, 1994; Jensen and Meckling, 1994), because self-interest by itself does not result in agency costs, while opportunism increases residual agency costs. Gomez-Mejia, Wiseman, and Dykes (2005) provide a distinction between opportunism and self-interest. They quote definition by McKenchnie (1979) who defined opportunism as “the adaptation of one’s actions to circumstances in order to further one’s immediate interests, *without regard for basic principles or consequences*” (p. 1508, emphasis by the authors). They argue that the emphasized part of the definition is what differentiates opportunism from rational self-interest. Williamson (1975) defines opportunism as pursuing self-interest with “guile.” The key to this definition of self-interest is that it does not necessarily manifest itself in opportunism, but can also be a cooperation when cooperative behavior is in the best interest of the agent. Implicitly opportunism is typically only related to the agent, instead of to both the agent and the principal (Perrow, 1986; Shapiro, 2005).

Another major assumption of Agency Theory is the information asymmetry between agents and principals (Pratt and Zeckhauser, 1985; Arrow, 1985; Levinthal, 1988; Mahoney, 2005). First, principals have limited information about the abilities of the individuals they choose to run firms. This is because we know more about ourselves and our abilities than other people and because of

that we can misrepresent ourselves in terms of ability, expertise, honesty and intentions. In Agency Theory this situation is called adverse selection (Shapiro, 2005; Eisenhardt, 1989) or in the terms of Arrow (1985) “hidden information.” This is similar to an insurance agency, where the true condition and habits of the applicants are unknown. Therefore insurers have to use a variety of methods to approximate real characteristics of the applicants such as medical exams, medical history and surveys. However, these are only approximations, or in management terms, proxies of the true condition. Similarly, principals can use interviews, employment history and extensive search techniques to evaluate potential agents.

Besides adverse selection, information asymmetries result in a moral hazard problem (Mahoney, 2005). Short of being omnipotent, principals cannot know every decision and action taken by the agent. Furthermore, they cannot be sure that the agent behaves in the best interest of the principal. Arrow (1985) discusses the situation where the agent acquires some information that she/he could use to make a decision. The agent then makes the decision based on this information. Yet, because this information is not available to the principal, she/he cannot check whether the agent used the information in his/her best interests. This situation was first described by Frederick Taylor (1911) as “soldiering”, where employees knew their true ability and how to work faster and efficiently, but concealed this information from their managers to avoid more stringent job requirements. A decentralized socialist economy is another well studied example of this agency situation (Mahoney, 2005). The main issue with the moral hazard situation is that effort has a disutility for the agent. In other words, agents are interested in achieving acceptable outcomes with a minimal effort. However, for the principal, the agent’s effort is positively related to the likelihood of a positive outcome, so the principal is interested in the maximum effort by the agent (Arrow, 1985).

Divergence of interests between the two parties in the agency relationship exacerbates the issue of information asymmetry because goal divergence coupled with high information asymmetry can

lead to opportunistic behaviors. The agent is often assumed to exploit information asymmetry in her/his best interests: “[agent] will exploit all the information asymmetries [she/he] can contrive to insure that [agent] maximize[s] [her/his] own interests at [principals] extent” (Shapiro, 2005, p.264). This potential for opportunistic behavior by the agent leads to an important concept in Agency Theory – a need for monitoring by the principal. Such monitoring is not costless (Jensen and Meckling, 1976) and is an important determinant of agency costs.

Risk differential (Beatty and Zajac, 1994; Coffee, 1988) is another crucial assumption of Agency Theory (Barney and Hesterly, 1996). Principals are considered to be risk neutral, because they can diversify their capital among different firms (Wiseman and Gomez-Mejia, 1998). Agents, on the other hand, are considered to be risk-averse, because their employment and income are tied to one firm (Donaldson, 1961; Williamson, 1963). This creates a risk differential between the two parties and is associated with opportunity costs, because the principals’ utility is tied to the maximization of firm returns by the agents (Hoskisson and Hitt, 1988; Morck, Shleifer, and Vishny, 1988). This risk differential is closely tied to moral hazard, because it presents a potential situation when the “best” action is different when evaluated from different risk attitudes. For example, a project might be considered too risky by the manager (yet has a potential to maximize firm returns) and the agent decides not to undertake it without the knowledge of the principal. The moral hazard inference here is closely tied to an implicit assumption in much of economics research, that risk is positively correlated to return (Fama, 1976a, 1976b; Sharpe, 1970), which is an implicit assumption of Agency Theory as well.

Agency Costs

To summarize the assumptions of Agency Theory, there are several differences between principals and agents. First, there is divergence of interests. Second, there is asymmetry of information. Third, agents and principals differ in their risk preferences. The primary focus of

Agency Theory is the contractual arrangement between these two parties such that the ex post costs resulting from their differences are minimized.

Jensen and Meckling (1976) used the term “agency costs”, which are “as real as any other costs” (p.72), and defined these costs as the sum of (1) monitoring expenditures by the principal, (2) bonding expenditures by the agent, and (3) the residual loss. Monitoring costs are assumed to be imposed on the principals and include everything that is associated with principals having to monitor the behavior of the agents. A large portion of these costs involves reduction in information asymmetry and issues associated with it (moral hazard and adverse selection). This includes financial monitoring, expenditures associated with board of directors (as a monitoring mechanism) and internal auditing activities. The basic reason for monitoring activities and the costs associated with it is to prevent agent’s self-interest turning into opportunism and to ensure that the agent behaves in the best interests of the principal.

Bonding costs are opposite of monitoring costs in the sense that they are incurred by the agent. These are expenditures “made by agent to reassure principals” (Mahoney, 2005). They include contractual guarantees to be audited by an outside party, explicit guarantees against agent’s malfeasance, and contractual limitations on the manager’s power (Jensen and Meckling, 1976). Jensen and Meckling (1976) provide an example of what they mean by bonding costs: managers produce detailed financial information and accounting reports that they collect for their own decision making and have an independent outside auditor testify to the information’s accuracy. Typically, bonding expenditures guarantee that the agents will not harm principals and that they will act in the best interests of the principals. These costs can be pecuniary as well as non-pecuniary, such as the time spent with the board discussing decisions and strategic options of the firm.

The third agency cost is the residual loss. While the first two types of agency costs are incurred to account for, and possibly resolve, the differences and asymmetries between agents and principals, the residual loss is due to unresolved conflicts of interests between the parties (Mahoney, 2005). This is a very expansive category that can include almost any cost that comes as a result of an agency relationship (Jensen and Meckling, 1976; Mahoney, 2005). In technical terms, Jensen and Meckling (1976) define it as “the dollar equivalent of the reduction in welfare experienced by the principal as result of [the] divergence in interests” (p. 5). The other two costs (monitoring and bonding) can be used to reduce the overall residual loss portion (Eisenhardt, 1989).

Jensen (1983) broadened the definition of agency costs, describing them as “the sum of the costs of structuring, bonding and monitoring contracts between agents ... [which]... also include the costs stemming from the fact that it does not pay to enforce all contracts perfectly” (p.331).

Pepper and Gore (2012) make a valid point that agency costs can be viewed as a special case of transaction costs in Coasian (Coase, 1937) sense, because they represent the internal transaction costs within the firm to enforce the agent’s contract.

Agency costs are critical to Agency Theory for two reasons: 1) they are unavoidable (Jensen and Meckling, 1976); and 2) minimization of these costs comes from efficient contractual arrangements between the parties. Berle and Means (1932/2009) were pessimistic about the separation of control and saw it as a problem. Jensen and Meckling (1976) and later agency theorists shifted the emphasis from capital market failures to efficiencies (Jaffe and Mahoney, 1999; Mahoney, 2005). The work that followed focused on solving the problem of agency by designing efficient contract arrangements where the interests of principals and agents were aligned (thus minimizing agency costs). Mahoney (2005) warned that modern agency theorists might be overly optimistic in their view that modern governance mechanisms solved agency problems.

However, it seems that the agency problem is far from being solved as Agency Theory has come under criticism by some scholars who argue that the agency models are insufficient in explaining empirical findings that contradict the propositions and prescriptions of the theory (Kiser, 1999; Dalton, Daily, Ellstrand, and Johnson, 1998; Dalton, Daily, Certo, and Roengpitya, 2003; Mahoney, 2005; Frydman and Jenter, 2010). For example, Dalton and colleagues (1998) provided empirical evidence that an independent board does not result in improved firm performance. This is contrary to Agency Theory's prescription that effective monitoring by a board with outside members will reduce residual agency costs and lead to improved performance. Similarly, empirical research has not supported Agency Theory's notion that equity ownership by executives will lead to more effective management of the firm and better performance (Dalton et al., 2003). Empirical research has also failed to link the increase in "pay for performance" compensation arrangements and tremendous increase in executive compensation over last few decades with firm performance (Jensen and Murphy, 1990; Tosi, et al., 2000; Frydman and Jenter, 2010). These issues have scholars either rejecting Agency Theory's usefulness (Perrow, 1986) or attempting to modify its assumptions and propose different theories such as Stewardship Theory (Donaldson and Davis, 1991; Davis, Schoorman, and Donaldson, 1997) and Behavioral Agency Theory (Wiseman and Gomez-Mejia, 1998; Pepper and Gore, 2012; Zajac and Westphal, 2012). In this dissertation, I argue that a step towards the reconciliation of Agency Theory and the contradictory empirical findings is by acknowledging that that ex ante costs of agency relationships are not absorbed in the efficient contract and should not be assumed away.

Theoretical Foundations of External Agency

Unlike other resources, agents are less imperfectly mobile (Coff, 1997; Campbell, Coff, Kyscynski, 2012) and the ex ante costs of using these human resources do not disappear with the creation of the contract. Firms cannot establish ownership of their employees and are limited in creating isolating mechanisms that can prevent their managers from leaving the organization,

because firms do not own or even fully control their human capital (Campbell, Coff, and Kryscynski, 2012). Additionally, human capital is associated with information problems and the threat of voluntary turnover (Cascio, 1991; Coff, 1997). Therefore, the traditional Agency Theory's view of the contract as a static agreement between the agent and the principal is not sufficient. From the perspective of agents who may be highly mobile, the contract with a principal is just one of many in the nexus of alternative contracts. Essentially, this is a market situation where a current contract represents one arrangement among numerous possible alternatives. I define agent mobility *as the opportunity cost of an agent's contract. It conceptually captures the resource value of the agent in the market for contracts as a result of agents's resources and access to alternative contracts.*

Such reconceptualization of the locus of the agency contract introduces a new aspect of agency relationship that is missing in traditional Agency Theory – external agency and ex ante agency costs. Agency costs have traditionally been defined as consisting of monitoring, bonding, and residual ex post costs of an agency contract. All of these costs are based on expenditures and residual costs resulting from the need to control, adjust, or resolve conflicts of interest between the agent and the principal ex post the contractual agreement. However, with human resources, and especially mobile agents, any contract is but an alternative in a nexus of contracts and therefore susceptible to permanent redefinition. Therefore ex ante competition for human resources does not disappear with the contract opening the opportunity for ex ante agency costs. Ex ante agency costs consist of expenditures made by the agents to promote their value in the market for contracts (e.g., self-serving market for contracts signaling, self-serving market for contracts expansion), expenditures made by the principals to limit continued ex ante competition for the agent's services, and residual costs due to ex ante uncertainties in the market for contracts – this third set of ex ante costs consisting of bargaining power opportunities for the agent arising from hidden action situations (e.g., the moral hazard cases in which agents can actually mask

information about their value in the market for contracts with their actions), hidden information situations (e.g., adverse selection events in which the agents may capture value from lack of information in the market for contracts), and resource development situations (e.g., when agents can appropriate the rents associated with their growth in value due to learning and experience gains resulting from their relationship with the principal).

The uniqueness of an agent's ex ante value can be seen if one compares an agent to a valuable resource. The resource has to have some ex ante value known to the market to be desirable by firms. However, if all firms know the exact value, then they cannot achieve rents from the resource, as those rents will be traded away through fierce competition for the resource. Peteraf (1993) refers to this as ex ante limits to competition, which are necessary for a firm to have competitive advantage. In the case of a resource, the firm, due to good foresight or luck, can acquire the resource and occupy an inimitable position over its rivals. Once the resource is acquired, its ex ante value is fixed and can provide Ricardian rents (if the other 3 conditions are satisfied) (Peteraf, 1993). However, in the case of agents, this ex ante value never disappears, because there is no property right and the agent cannot be owned by the firm, only rented. Furthermore, agents are not imperfectly mobile, but can renegotiate their contracts or choose to move to another firm. This creates a situation where the agent's ex ante value is in permanent flux, and the agent can choose to internalize this value by renegotiating the existing employment contract or externalize it by a new contract with an outside firm.

Ex ante agency costs are as real as other agency costs. First, engagement in external agency carries opportunity costs. As agents engage in external agency behaviors that increase their ex ante value and their mobility, they expend firm's resources on actions and projects that might not be optimal for improving firm's performance. For example, corporate social responsibility (CSR) has been shown to be motivated, in part, by narcissistic tendencies of CEOs rather than by performance considerations (Petrenko, Aime, Ridge, and Hill, forthcoming). In similar fashion,

certain kinds of CSR can be considered external agency behaviors, because they increase the visibility and, therefore, the mobility of CEOs within an industry. Costs associated with such CSR initiatives can be considered agency costs as they take away resources from other initiatives where they could have larger performance improvements.

Ex ante agency costs can also result from higher bargaining power of more mobile agents. As agents' mobility increases, their market for alternative contracts expands and the threat of voluntary turnover increases. Similar to a faculty member who renegotiates her/his current contract with the dean under the threat of going to another institution, mobile agents can choose to improve the contract with their current principal, rather than leaving for a better alternative. Such ex ante agency costs derived from higher bargaining power can take the form of salary increases, larger bonuses or increase in non-pecuniary benefits. These ex ante agency costs are similar to the traditional ex post agency costs, because they result from moral hazard and information asymmetry issues in the agency relationship.

Aspects of Agent mobility

Mobility of agents yields to the reconceptualization of an agency contract where both ex ante and ex posts costs should be considered. Agency behaviors that are driven by ex ante value redefinition of an agent can be generally viewed as external agency. Next, I define five aspects of agent mobility that facilitate external agency behaviors.

The selection of aspects of agent mobility is based two main criteria. The definition of agent mobility states that it conceptually captures the resource value of the employee in the market for contracts as a result of key employee's resources and access to alternative contracts. Therefore, each aspect needs to reflect either the resource value of the employee in the market for contracts or the access of the employee to alternative contracts. Essentially, agent mobility has a dual nature. On one hand, there is the supply side that represents the available supply of agent's

resources valued by the market for contracts. The bigger the supply of these resources (e.g., agent's skills, knowledge, expertise, social, and general human capital), the more mobile the agent is. Due to information asymmetries, the actual supply might be different from the market's perception of agent's resources, and the agent might be over- or undervalued. On the other hand, there is a demand side of agent mobility that improves the access to alternative contracts. So, the first criterion is that specific aspects must represent either the supply or the demand side of agent mobility, or both.

The second criterion for identifying aspects of agent mobility is that they must be conceptually different from each other and have little overlap to capture meaningfully different features of agent mobility. When creating a composite (formative) construct, multicollinearity can present a serious issue and the multiple dimensions (aspects) of a latent construct should complement each other while being conceptually different (Law and Wong, 1999; Jarvis, Scott, and Podsakoff 2003; Larraza-Kintana, Wiseman, Gomez-Mejia, and Welbourne, 2007).

Using these two criteria, the availability of alternative contracts should capture the demand side of agent mobility. On the supply side, that captures the resource value in the market for contracts, four aspects are relevant and facilitate mobility. First, the general human capital represents agent's skills that can be easily transferred between contracts. Second, social capital represents the resources (e.g., information and access to knowledge) available via the broad social network. Social capital is unique, however, in the sense that it can have an enhancing effect not only on the demand side (as a resource), but also on the supply side by providing access to a broad network of alternative contracts. Finally, because the market's perception of the supply is the key in the presence of information asymmetries, charisma and outcome measurability will affect agent mobility by altering the market's perception of the person's resources.

Alternative Contracts

Jensen and Meckling (1976) viewed a firm as a “nexus of contracts” and focused on the single contract between principal and agent. However, that contract exists in another nexus of kind, which consists of other alternative contracts for the executive to compete for. In this sense, an alternative contract is any outside contract that offers better future value appropriation opportunities for the agent. Hence, I define alternative contracts as all the contracts in proximal industries that have better value than the current contract. This value can be both pecuniary (compensation) and non-pecuniary (prestige, power). Alternative contracts affect the behavior of CEOs for a number of reasons.

First, alternative contracts allow executives to diminish their dependence on the current contract. Emerson (1962) was the first one to acknowledge that dependence of one actor on another is proportional to rewards and gratifications that the former desires and receives from the latter and inversely proportional to the availability of such rewards from outside of the focal relationship. The availability in this case refers to “alternative avenues of goal-achievement, most notably other social relations” (Emerson, 1962, p.32). In the case of CEOs and alternative contracts, the existence of such contracts facilitates their mobility by providing them with alternatives to their current contract.

Availability of alternative contracts can also prompt the agent to engage in ex ante driven agency behaviors in an attempt to rebalance the power situation in the agency relationship. The power here is not a mere attribute of the agent, but it is relational and a feature of the social relationship between the two parties (Emerson, 1962; Cook and Rice, 2006). Executives can create power imbalance in their favor by increasing the availability of alternative contracts via external agency. This power imbalance will result in higher bargaining power of the agent, which will lead to higher appropriation of internal rents or a better future contract with the current principal, making

external agency a truly agentic behavior. However, following Emerson's (1962) and Blau's (1964) conceptualization, power in this social exchange situation should be treated as potential, meaning that it might be exercised or not. While external agency will provide more power to the agent in the current employment relationship (in the existence of alternative contracts), the agent might choose not to exercise this power in the future, but instead to withdraw from the current contract in favor of the new contract that becomes available. Essentially, the availability of alternative contracts and ex ante driven agency behaviors can result in more power and, thus, more mobility for the agent.

Lastly, as the number of alternative contracts increases, the market becomes more appealing for CEOs. As there is information asymmetry between the market and the executives, the latter attempt to manage this asymmetry actively in their favor. A critical assumption here is that in situations of CEO hiring, potential principals are uncertain about the competence and abilities of potential agents in running a specific firm, before hiring them and even for some period after (Campbell, Coff, and Kryscynski, 2012). In this situation, market signals, which are defined as "activities or attributes of individuals in a market which, by design or accident, alter the beliefs, or convey information to, other individuals in the market," (Spence, 1974, p.1) become an important mechanism of communication and information transfer in the market. As potential principals look for indicators to evaluate agents in the market, agents provide positive indicators while doing their best to conceal negative ones. Some of the external agency behaviors can be considered as market signals that shape market perceptions about the true nature of executive's competence and expertise. For example, when CEOs increase their visibility by giving speeches and interviews, the content of those communications includes signals to the market that are carefully crafted by the CEOs themselves (Chatterjee and Hambrick, 2007).

Alternative contracts facilitate agent mobility by decreasing agents' dependence on current contract and increasing their bargaining power. As CEOs participate in the external market for

potential contracts, they compete with other CEOs. This competition is socially embedded in the market, which values external agency behaviors while devaluing internal rent appropriations. Furthermore, ex ante driven agency behaviors can be considered market signals to improve market perceptions of agent's competence and expertise in competition for alternative contracts. Therefore, the availability of alternative contracts is one aspect of agent mobility that would facilitate ex ante driven agency behaviors.

Heterogeneity in Human and Social Capital

A fundamental assumption of resource-based view (RBV) is that there is heterogeneity of resource bundles and capabilities across firms (Barney, 1991; Peteraf, 1993). This heterogeneity implies different levels of efficiency among resources, with some being superior to others. A similar logic can be and has been applied to human capital resources (Coff, 1997; Buchholtz, Ribbens, and Houla, 2003; Hatch and Dyer, 2004; Kor, and Leblebici, 2005; Campbell, Coff, Kryscynski, 2012). The existence of heterogeneity in human capital is an essential aspect of agent mobility, because just as some resources are more efficient than others, certain agents (those with high general human capital) are more mobile than their peers with less general human capital.

Here I define human capital as “context-specific knowledge and skills obtained through work experience” (Tian, Haleblan, and Rajagopalan, 2011, p. 732) or education (Becker, 1975; Blaug, 1976). Research in strategy has looked at human capital as an important source of compensation “to the extent that is recognized and valued in a firm” (Finkelstein, Hambrick, and Cannella, 2009, p. 306). Different aspects of human capital include managerial experience, tenure, and education (Hogan and McPheters, 1980). There are mixed findings regarding the relationship between human capital and compensation, with some studies reporting a positive relationship (Finkelstein and Hambrick, 1989; Agarwal, 1981; Fisher and Govindarajan, 1992) and others reporting insignificant findings (Deckop, 1988; O'Reily, Main, and Crystal, 1988; Rajagopalan

and Prescott, 1990). However, in the stream of human capital research, there are a number of studies that support the notion that firms compensate outsiders more than insiders due to the differences in their general human capital (Harris and Helfat, 1997; Gilson and Vetsuypens, 1992; Joskow, Rose, and Shepard, 1993; Hambrick and Finkelstein, 1995). This line of research provides evidence that human capital is beneficial in reaching top echelons of the firm (Leonard, 1990) and in being selected as an outsider successor (Finkelstein, Hambrick, and Cannella, 2009), showing that agents with higher human capital tend to be more mobile both within their organizations and across different firms.

When it comes to agent mobility, not all human capital is equal. Firm-specific human capital limits the mobility of employees because it cannot be easily applied in other firms (Coff, 1997; Buchholtz, Ribbens, and Houle, 2003; Hatch and Dyer, 2004; Campbell, Coff, and Kryscynski, 2012) and cannot be used in other organizations “without sacrifice of productive value” (Williamson, 1988: 70). Becker (1964) posed that employees can either invest in firm-specific or general skills. By investing in firm-specific skills, employees increase their value to the firm, but also forgo investment in general skills, therefore reducing their value for alternative firms. As a consequence, firm-specific human capital hinders employee mobility (Hashimoto, 1981; Jovanovic, 1979; Parsons, 1972). On the contrary, general human capital can be transferred between firms, has constant value across firms (Campbell, Coff and, Kryscynski, 2012), and can be valuable for alternative contracts. Thus, general human capital enhances agent mobility, because it is valued by the market for alternative contracts. Examples of general human capital include agent’s inter-industry experience, general education (e.g., MBA), and experience with inter-industry alliances.

Furthermore, agents with considerable general human capital are more likely to consider themselves capable of running larger and more complex firms than their own. They will be more likely to orient themselves towards the market to keep themselves attractive for alternative

contracts. In essence, they are more likely to consider their current contract as a stepping stone towards better contracts in the future. Hence they might limit their internal agency behaviors (that might decrease their market value) and focus more on external agency to keep themselves visible and increase their mobility.

Besides human capital, heterogeneity in social capital is also an important aspect of agent mobility. I define social capital here as the “sum of the resources, actual or virtual, that accrue to an individual... by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition” (Bourdieu and Wacquant, 1992, p. 119). Social capital is viewed as an advantage and a complementary context to human capital (Burt, 2000) where people who “do better are somehow better connected” (p.347). Research on social capital in strategy has provided evidence of this advantage view of social capital by linking it to managerial performance (Moran, 2005), alliance formation (Chung, Singh, and Lee, 2000; Koka, Prescott, 2002), knowledge acquisition (Helena, Erkkö, and Harry, 2001), and CEO compensation (Belliveau, O’Reilly, and Wade, 1996; Westphal and Zajac, 1995; Fiss, 2006).

CEOs possess different amounts of social capital (Finkelstein, Hambrick, and Cannella, 2009). Those who serve on outside boards and whose firms have numerous relationship with other firms (such as joint ventures or alliances) will have more social capital. Such connections with actors outside the firm will provide CEOs with more information about the potential contracts they can compete for. The process works both ways. In the typical labor market employers acquire a great deal of information about prospective employees from other individuals known to both (Granovetter, 1974; 1983). This holds true for the market for executive contracts as well. As Granovetter put it: “one’s market situation changes significantly with the number of individuals who know one’s characteristics” (1992, p. 239). In this sense, higher amounts of agent’s social capital mean embeddedness in a larger network with access to more information and knowledge and, therefore, higher mobility.

Similar to general human capital, the characteristic of social capital that impacts improved mobility the most is the breadth of social capital. Having a large network composed of individuals who are closely related to the current contract will not enhance mobility as much as having a broad network that includes connections with individuals in other industries and in the media. These ties, which can be considered weak ties (Grannovetter, 1983), provide the agent with access to the information that is unavailable in the agent's proximal social network, such as the existence of alternative contracts in other industries. Additionally, these weak ties provide the agent with additional exposure to additional potential principals that might not notice the agent otherwise.

Charisma

Although social and capital endowments of agents are important aspects of their mobility, some executives will be more mobile due to their specific individual characteristics. The concept of agent mobility itself is externally oriented towards the market and potential principals. Thus, it should be influenced by the external image and the market's perception of the agent. Extant research on charisma dates back to Weber's (1957) conceptualization as a form of legitimate authority derived from divinity. Researchers adopted the term of charismatic leader as one who "by the force of [her/his] personal abilities [is] capable of having profound and extraordinary effects on followers" (House and Baetz, 1979: 399). This stream of research focused on the relational aspect of charisma between the followers and the leader. Charisma is not necessarily a personality trait, but rather a relationship between followers and the leader, and must be viewed as "an attribution made by followers" (Conger and Kanungo, 1988, p.79). Findings of numerous studies showed that charismatic leaders are capable of achieving exceptional performance (Bass, 1985), change the values of the followers (Etzioni, 1975), have followers sacrifice their own personal interests for collective goals (House, 1977), and increase enthusiasm and excitement of their followers (Weber, 1957; Bass, 1985).

Although researchers have made significant strides in understanding the effects of charisma (Conger and Kanungo, 1988; Finkelstein, Hambrick, and Cannella, 2009; Wowak, Mannor, Arrfelt, and McNamara, in press), only recently have they turned to examining charisma's effects on external stakeholders of organizations (Flynn, and Staw, 2004; Fanelli and Misangyi, 2006). A recent study found that the stock of companies led by charismatic CEOs appreciated more than stock of similar companies, even after accounting for the differences in performance (Flynn and Staw, 2004). Tosi et al. (2004) showed that charismatic CEOs perform above industry average on shareholder returns (external indicator of performance) in situations of uncertainty, but do not outperform on return on assets (internal performance). Meindl and Thompson (2004) proposed a theory of CEO charisma as a characteristic socially constructed by the media to provide an explanation of organizational performance.

Fanelli and Misangyi (2006) took this work further by introducing a theory regarding how charisma affects participants outside of the focal organization. They theorized that charisma has different effects on people inside the organization compared to outsiders in terms of motivation, relationship with the CEO, and CEO communication. For example, while charisma increases insiders' motivation to produce, it improves outsiders' motivation to participate (invest in the company; discuss the company in the media). As for relationship differences, charismatic CEOs do not have a position of power over outsiders like they do over people within their organizations. Therefore, they engage in symbolic management of external stakeholders by persuading them to behave in ways that are beneficial to the organization, such as delaying selling stocks in the presence of better alternatives (Zajac and Westphal, 1995) or by managing public perception of the firm. Furthermore, the communication networks established by CEOs differ between insiders and outsiders. While the communication with the former occurs in "captive" networks where subordinates have to pay attention to the CEO's message, the communication with the latter

carries a “competitive” character where the CEO has to compete for the attention of external stakeholders with other actors and win their attention (Fanelli and Misangyi, 2006).

The work of researchers shows that executive charisma has effects beyond the relationship with the followers – it affects perceptions and behaviors of outside actors. Consequently, charismatic individuals will be more likely to exhibit external agency behaviors in an attempt to influence how external actors, including potential principals, perceive them and their abilities. Charismatic agents will be perceived as more mobile and will attract the attention of more potential principals compared to their less charismatic peers. In this way charisma will enhance the demand-side of agent mobility by affecting the market’s perceptions regarding the individual’s ability, knowledge, and expertise.

Outcome Measurability

The last supply-side aspect of agent mobility that would facilitate ex ante driven agency is outcome measurability. It is well documented in extant research that the managerial effect on corporate strategy and performance varies across industries (Liebersohn and O’Connor, 1972; Wasserman, Nohria, and Anand, 2001; Finkelstein, Hambrick, and Canella, 2009). An extensive body of research links such variation to differences in managerial discretion (Hambrick and Finkelstein, 1987; Hambrick, Geletkanycz, and Fredrickson, 1993; Haleblan and Finkelstein, 1993; Hambrick and Abrahamson, 1995). From a mobility perspective, however, the issue lies not simply in the amount of discretion the managers have, but also in the degree to which managerial actions can be clearly linked to performance outcomes. In some environments outcomes can be more easily measured and attributed to individual actors, while in others such attribution is more difficult.

In situations of high information asymmetry and where it is difficult to observe the agent (i.e. moral hazard), the outcomes of managerial decisions cannot be easily separated from industry-

specific effects. This results in low outcome measurability where performance results cannot be objectively attributed to the agent. This has important implications for the agent's mobility. When outcomes cannot be clearly linked to agents, the information asymmetry is amplified, and potential principals have limited ability to accurately evaluate potential agents. This is important for the market in evaluating the agent's expertise and knowledge based on the overall performance of the firm. In cases of low outcome measurability the effect of firm performance on mobility is dampened, because the market cannot objectively evaluate agent's skills and expertise. The opposite happens under conditions of high outcome measurability and the effect of performance on the mobility is amplified. Table 1 provides an illustration of different degrees of agent mobility depending on performance and outcome measurability.

When the outcome measurability is moderate, the effects of performance on mobility can be viewed as linear in nature – the better the performance the more the market values the expertise and knowledge of the agent (second row of the table). However, when outcome measurability is low or high, the effect of performance on mobility is not linear. In the case of low performance, low outcome measurability dampens the effect of poor performance on mobility, because the agent can use information asymmetry to minimize attribution of negative performance. Thus, under conditions of low outcome measurability and low performance, mobility is diminished less (mobility = below average) than under condition of average outcome measurability (mobility = low). Similarly the effect of high performance is dampened as well under condition of low outcome measurability because of information asymmetry (mobility = above average vs mobility = high). However, if outcome measurability is high, information asymmetry diminishes making it easier to attribute both negative and positive performance leading to mobility being lower at low levels of performance and higher at high levels of performance compared to environments with moderate outcome measurability (bottom row of the table).

Composite Agent mobility

The five different aspects of agent mobility represent the unique nature of the construct. The demand-side aspect conceptually captures agent's access to alternative contracts. The supply-side aspects (general human capital, broad social capital, charisma, and outcome measurability) represent agent's supply of resources that are valuable in the market for contracts.

The composite nature of agent mobility requires the construct to be viewed as complex in structure where different elements affect the overall latent construct. For example, some agents, such as CEOs, can possess a good amount of general human capital, which will increase their mobility, but they might be in an environment with few alternative contracts. In that situation their mobility will not be as high as in an industry, where many alternative contracts are present.

The important distinction between demand and supply side aspects makes it critical to analyze the overall composite nature of agent mobility rather than looking at a single aspect in isolation.

Focusing on the overall mobility allows to simultaneously consider both the demand for agents in the market for contracts and the supply of resources they can provide for alternative contracts. As different aspects enhance or constrain mobility, the ex ante costs of agents' contracts vary from high for mobile employees to low for their less mobile peers. These ex ante agency costs have important implications for several fundamental relationships in Agency Theory and that is the focus of the next chapter.

CHAPTER III

THE EFFECTS OF AGENT MOBILITY

In this chapter of my dissertation I develop a set of hypotheses for the theory of ex ante agency costs and external agency behaviors. I predict that agent mobility will moderate traditional Agency Theory relationships (Hypotheses 1, 2 and 3). I also hypothesize that less mobile agents will expand their market of alternative contracts via unrelated diversification (Hypothesis 4) and agent mobility will be positively associated with the increases in the agent's compensation (Hypothesis 5).

The Moderating Effects of Agent mobility

Agent mobility has important implications for Agency Theory because it can provide boundary conditions for some of the fundamental predictions. More specifically, in the next section I argue that agent mobility moderates the relationships between (1) stock option incentives and risk-seeking behaviors; (2) managerial ownership and performance; and (3) contingent pay and performance (pay-for-performance relationship). Figure 2 depicts the moderating effects of agent mobility.

Stock Options and Risk-seeking

From the traditional logic of Agency Theory, the use of incentives (such as stock options) is the primary mechanism of inducing risk-taking behaviors by the agent, because stock-based incentives motivate agents to be less risk-averse and to initiate projects that should increase shareholders' wealth, as doing so will also increase agent's wealth (Jensen and Meckling, 1976; Fama and Jensen, 1983). However, the issue of downside risk is usually absent from this logic (Sanders, 2001). Agents who are mobile are not as dependent on their current contract as their less mobile peers. The existence of alternative contracts provides agents with options outside their current income stream, which diminishes their dependence on the current contract (Emerson, 1962). This happens because dependence is a function of the value the agent places on the resources provided by the principal and the availability of those resources from alternate sources. The greater the availability of the resources from alternate principals, the less is the dependence of the agent on the principal (Cook and Rice, 2001). As the agent's dependency on the current contract decreases, the agent's power relative to the principal increases (Turner, 1998). The combination of decreased dependence and increased power of the agent can result in perception of lesser downside risk for agents. Therefore, agent mobility decreases the downside risk for the agent, while the lack of mobility increases this downside risk.

Agents who are limited in their mobility will behave rationally by trying to minimize losses rather than maximize their returns (Wiseman and Gomez-Mejia, 1998). Therefore, the incentives, as a mechanism to induce risk-taking, become less effective for agents who have low mobility. For them, the additional rewards might not overcome the fear of jeopardizing their income stream and employment. Take, for example, a CEO of a major corporation who is the highest paid in the industry. For such an executive there are no alternative contracts and her/his mobility is very limited. Any risk to the current contract for her/him is magnified by this constrained mobility. As

a result, even in the presence of high incentives, this agent will be risk-averse, as the current contract is close to the best possible contract.

The relationship between incentives and risk-taking is also not as straightforward as the agency logic suggests for more mobile agents. For executives who are very mobile, the reduction in dependence on the principal and the lower downside risk due to available alternative contracts provide enough inducement towards behaving in a risk-seeking manner, even in case of weak incentives. For example – highly mobile individuals, such as charismatic agents with considerable amounts of broad social and general human capital who see plenty of alternatives to their current contracts in the industry. These agents will behave in a risk-seeking manner even with weak incentives, because they want to increase their ex ante value in the market to either negotiate a better contract with the current principal or a more lucrative alternative contract with another principal.

In essence, agent mobility dampens the effects incentives have on risk-taking at the lowest and highest levels of mobility. This moderation effect should not exist at moderate levels of mobility, where the downside risk is not excessive and mobility in itself is not strong enough to induce risk-taking regardless of incentive alignment. At moderate levels of mobility, the effect of incentives should follow the traditional agency logic and induce risk-seeking behaviors. Figure 3 represents the effect of the interaction between mobility and incentive alignment on risk-taking.

Hypothesis 1: Agent mobility will moderate the relationship between incentives and risk-seeking behaviors, such that agent mobility weakens the effect of incentives on risk-seeking behavior at low and high values of mobility.

Managerial Ownership, Contingent Pay and Performance

Besides the influence of incentives on risk-taking, core arguments of Agency Theory include that agency costs can be reduced by managerial ownership (Jensen and Meckling, 1976; Jensen and

Murphy, 1990) and proper alignment of fixed and contingent pay (Jensen and Murphy, 1983; Eisenhardt, 1989). However, the empirical research produced mixed findings regarding these relationships (Jensen and Murphy, 1990; Tosi, Werner, Katz, and Gomez-Mejia, 2000; Frydman and Jenter, 2010), leading to concerns about the theoretical arguments of Agency Theory (Mahoney, 2005). A broader question can be asked here: are there boundary conditions that would affect these relationships?

To answer this question, it is necessary to shift the locus of contract from existing in a vacuum (where a firm is a nexus of contracts) to being just one in a larger nexus of alternative contracts. The agency relationship, then, is no longer a dyadic relationship between the agent and principal – the market becomes an important factor in the relationship. Agency Theory has long been criticized as acontextual (Mitnick, 1992; Kiser, 1999) as it assumed that the agent-principal contract existed in a vacuum. The concept of the ex ante driven agency explicitly introduces the market context in the agency relationship because external agency behaviors are directed towards the market and other principals. Agents are embedded in the larger social context (Zajac and Westphal, 2012) not just within their firms (Aime, Van Dyne, and Petrenko, 2011), and their behaviors are linked to actors outside of the firm.

This interaction between the agent, the principal and the market can be viewed as an exchange between the agent, principal and potential principals (market). Turner (1998) defined exchange, a fundamental property of social environment as “exchange of resources among actors, driven by needs to secure rewards or utilities in their relations with others” (p.263). Focus on exchange rather than on transaction (in Williamson’s sense) is a broader approach that allows for inclusion of social exchanges between actors, including information exchanges. Another feature of exchanges is that their social nature allows individual utility function to include additional arguments such as status, power, social approval, and prominence, which have been neglected in neoclassical economics (Arrow, 1985). Similar to transactions, exchanges are not costless and

exchange costs resemble transaction costs as they can be conceptualized as the social exchange counterpart of physical friction (Williamson uses this comparison in explaining transaction costs, Williamson (1981)). In the case of an agent, the costs of exchanges with the market, current and potential principals include time, attention, cognitive, and mental resources.

As the mobility of agents increases, so do their opportunities for exchanges with the market. In a situation of unlimited resources and unbounded rationality, agents could maximize their utility from all of the possible exchanges. However, acting under the constraints of limited resources and bounded rationality (Wiseman, and Gomez-Mejia, 1998; Pepper and Gore, 2012), agents have to balance their resources between exchanges with the current principal and potential principals in the market for contracts. Highly mobile agents are more likely to shift their attention towards market exchange in competition for a better contract, because, in a sense, they view the current contract as a stepping stone towards better future contracts.

Once there are numerous exchanges that occur for the agent, the saliency of the agent-principal exchange and contract decreases. Once agents become involved in the market for alternative contracts, they want the market and potential principals to view them as valuable. Highly mobile agents may attempt to improve their performance and value in the market for contracts regardless of current contractual arrangements. Therefore, managerial ownership and performance incentives of the existing contract with the principal become less salient and their effect decreases.

This is rational behavior for highly mobile agents, as the rationality assumption indicates that executives attempt to optimize their rewards based on some individual utility function (Arrow, 1974). This utility function includes nonmaterialistic arguments such as visibility, reputation, prestige, and power. So executives who see themselves as highly mobile will still strive for performance even when their ownership in the current firm is low and there is lack of contingent

pay, because they want to improve their value in the market regardless of the current contractual incentives and ownership. However, when their mobility is limited, the traditional logic of Agency Theory should hold and managerial ownership and performance-based pay should have positive performance implications. Thus, I propose two sets of hypotheses: (1) agent mobility will weaken the effect of managerial ownership on performance and (2) agent mobility will weaken the effect of contingent compensation on performance:

Hypothesis 2: Agent mobility will moderate the relationship between managerial ownership and organizational performance, such that agent mobility will weaken the relationship.

Hypothesis 3: Agent mobility will moderate the relationship between contingent pay and organizational performance, such that agent mobility will weaken the relationship.

Expansion of the Market for Alternative Contracts

From the agent's perspective, mobility offers a number of benefits. First, it increases agent's power over the principal as it provides alternatives to the current contract. This power can take the form of bargaining power and agents can increase the value they appropriate by negotiating a higher salary or additional non-pecuniary benefits. Second, mobility diminishes the agent's employment and downside risk because the agent's dependence on the current contract decreases when there are alternatives. Therefore, agents who are mobile have certain advantages compared to their less mobile peers. The question arises then, how can less mobile agents expand their mobility?

Most aspects of agent mobility are hard to manipulate for an agent. For example, charisma, while being an attribution, is hard to alter (Fanelli and Misangyi, 2006). Human and social capital can take a long time to increase. For instance, completion of an advanced degree, such as an MBA, can take two years or longer. Social capital can be expanded by serving on outside boards and

increasing the number of social ties that executive has, but there are certain personal costs associated with it. Furthermore, outcome measurability is a characteristic of the environment that is not easily changed by the executive.

However, on the demand side of mobility, agents can use firm's resources to increase the availability of potential principals. One such option is to enter an industry where alternative contracts are abundant. This can be accomplished via a diversification tactic such as an acquisition. In the situation of less mobile agents, related industries would not dramatically increase the number of potential principals, because the agent is already within or close to the market for contracts. This makes unrelated diversification a more likely tactic for the expansion of alternative contracts. This is a classic case of agency behavior, as the agent will gain access to alternative contracts at the expense of firm's resources. Because CEOs have large amounts of discretion when it comes to acquisitions (Chatterjee and Hambrick, 2011) and unrelated diversification can provide a mechanism for expansion of alternative contracts for less mobile agents, agent mobility should be negatively related to unrelated diversification.

While in the extant research unrelated diversification has been widely associated with risk (Sanders and Hambrick, 2007), mobile employees will be less likely to engage in unrelated diversification, because market generally views it as having negative effect on performance (Palich, Cardinal, and Miller, 2000). This makes unrelated diversification a unique strategy for CEOs that lack mobility because, while they are more risk averse compared to their more mobile peers, unrelated diversification is one of the only ways for them to expand the market of alternative contracts and increase the availability of potential principals. This is not to say that CEOs of highly diversified companies are less mobile, but rather that CEOs with low mobility will see unrelated diversification as a viable option to improve their mobility. Therefore I hypothesize that:

Hypothesis 4: Agent mobility will be negatively related to change in diversification.

Contract Appropriation

Ex ante driven external agency behaviors have costs associated with them. These costs consist of expenditures made by the agents to promote their value in the market for contracts, expenditures made by the principals to limit continued ex ante competition for the agent services, and residual costs due to ex ante uncertainties in the market for contracts. These costs affect the distribution of value appropriated from the contract for both the agent and the principal. The value of the contract is based on the skills, expertise and knowledge of the agent. The agent is compensated for her/his skills and knowledge by the principal. Traditional Agency Theory acknowledges three types of agency costs: (1) costs of monitoring, (2) bonding costs, and (3) residual loss. Therefore, the value that the principal appropriates from the contract can be expressed as:

$$VA_p = VC - M - C - R \quad (1)$$

Where, VA_p – Value appropriated by the principal

VC – Value of the contract

M – Costs of monitoring

C – Agent’s total compensation

R – Residual loss

In a similar vein, the total value appropriated by the agent can be expressed as

$$VA_A = C + R - B \quad (2)$$

Where, VA_A – Value appropriated by the agent

C – Agent’s total compensation

R – Residual loss

B – Bonding costs

Figure 4 shows the relationships as a function of the total compensation (on the horizontal axis). As the agent and the principal agree on the compensation arrangement, the total value of the contract (less some residual loss) is appropriated between the two parties. The value appropriated by the principal from the contract is the line between P_1 and C_1 , while the agent's portion is represented by the $A_1 - C_1$ line. The sum of the two portions is always less than the actual value of the contract, because a portion of residual loss is not appropriated by either the agent or the principal.

Reconceptualization of the agency relationship by introduction of ex ante driven external agency behaviors impacts the traditional model because some of the external agency costs are incurred by the principal. This results in the shift for the line representing value appropriation of the principal that can be expressed by the following equation:

$$VA_p = VC - M - C - R - E \quad (3)$$

Where, E – external agency costs.

At the same time, the line representing the value appropriation of the agent shifts as well, because some of the external costs can be appropriated by the agent when opportunism is present, changing the agent's value appropriation to this equation:

$$VA_A = C + R + E - B \quad (4)$$

These two shifts are represented by the dashed lines on Figure 5. The total value appropriated by the principal from the contract decreases from C_1-P_1 to C_1-P_2 , while the value appropriated by the agent increases from A_1-C_1 to A_2-C_1 . Ex ante driven external agency costs result in a shift of the value appropriated from the present contract from the principal to the agent.

The effect of agent mobility can also be seen on Figure 5. If the agent decides not to leave the organization for a better contract, her/his mobility will provide her/him with stronger bargaining power to renegotiate the contract for higher compensation (in terms of both pecuniary and non-pecuniary rents). In this situation, the contract agreement moves from the C_1 line to the C_2 line, resulting in less value appropriated for the principal and more value appropriated for the agent. At the same time the agent mobility will diminish, as the number of alternative contracts will decrease once the new (better) contract is established. I formalize the employee mobility as the following function:

$$KEM = f(Alt, HC, SC, OM, C) \quad (5)$$

Where, KEM – Agent mobility,

Alt – Alternative contracts

HC – Human capital

SC – Social capital

OM – Outcome measurability

C – Agent charisma

As I stated above, mobile agents who decide to stay with their current contract can benefit from their mobility by increasing their compensation with the current principal. Therefore, mobility of agents will be positively related to incremental increases in compensation. My last set of hypotheses is the following:

Hypothesis 5: Agent mobility will be positively related to increases in compensation.

CHAPTER IV

METHODS

Data and Sample

I test my hypotheses on a sample of CEOs of public firms in the S&P500. While the theoretical relationships I developed can be applied to general key employees with imperfect mobility, I decided to use chief executives of public firms to test this theory for a number of reasons. First, CEOs have ample opportunities for ex ante driven agency behaviors given their position and high visibility in the market. Second, chief executives tend to be powerful employees with a great deal of discretion in shaping strategic actions of firms (Finkelstein, Hambrick and Cannella, 2009). Third, the data on CEOs is widely available from a variety of sources. Following prior research, I exclude CEOs of firms in highly regulated industries such as insurance, utilities and finance (e.g. McGahan and Porter, 1997; McNamara, Aime, and Valeer, 2005; Sanders, 2001). I focus on publicly traded firms to guarantee data availability and consistency. I chose 15 years where financial data is widely available and consistent (2011-1996) to guarantee data integrity, cover different macroeconomic environments, and provide generalizability to my findings. I include information for all firms in the sample for one year prior to the period of interest to control for possible left-censoring of the data and forward up to the latest data available for 2013 to capture lagged performance effects.

Financial and industry data was gathered from COMPUSTAT by Standard and Poors. The data on acquisitions and mergers was gathered from Securities Data Corporation (SDC Platinum) maintained by Thompson Reuters. Data regarding executive individual personality is collected using the videometric analysis following the procedures developed by Petrenko, Aime, Ridge and Hill (in press). The data regarding human, social capital, and demographics of executives comes from publically available sources such 10-K filings, proxy statements and *Who's Who in Finance and Business: The Dun and Bradstreet Reference Book of Corporate Management*.

Measurement

Dependent Variables

Risk-seeking Behaviors. Researchers have differentiated between two aspects of risk: managerial risk-seeking and income stream uncertainty (Palmer and Wiseman, 1999). The first arises from strategic decisions by the management, while the latter is a characteristic of the environment. Because my theoretical arguments relate to risk-seeking by the agent, in this study I use a measure of managerial risk-seeking. To operationalize this measure, I follow the previous research that conceptualizes managerial risk-seeking as investments into strategic outlays that are known to have highly uncertain returns: research and development (R&D), capital expenditures, and acquisitions (Chatterjee and Hambrick, 2007). Although all three forms of spending have been used as individual indicators of risk taking (Hoskisson, Hitt and Hill, 1993), they are frequently substitutes of each other (Chatterjee and Hambrick, 2007; Chatterjee and Hambrick, 2011). Because my fourth hypothesis is about unrelated diversification, I do not include acquisitions in my measure of risk, but rather use a logged sum of two indicators (R&D and capital expenditures) as an aggregate indicator of risky outlays for each year.

Performance. Following prior research I use two measures of performance. First, I use an indicator of operational performance - return on assets (Total Gain(Loss)/Assets). I also run

supplementary analyses using Tobin's Q , a widely-accepted measure of market performance, which is calculated as the ratio of firm's market value to the firm's asset replacement cost (Tobin and Barnard, 1968; Hillman and Keim, 2001).

Diversification. Diversification is measured using the entropy index. The entropy index is given by $\text{Entropy} = -\sum_{i=1}^N P_i \ln\left(\frac{1}{P_i}\right)$, where P_i is the proportion of business activity (Sales) in SIC Code, for a corporation with N different four-digit SIC businesses.

Increase in Compensation. I measure increases in compensation by subtracting compensation in the year t from compensation in the year $t+1$. Total compensation includes salary, bonus, total value of restricted stock granted, net value of stock options exercised, long-term incentive payouts, and all other compensation of the CEO in a given year.

Independent Variables

Agent mobility

Agent mobility is conceptually a composite construct that includes five aspects: availability of alternative contracts, general human capital, social capital, charisma, and outcome measurability. To create the composite index of mobility for each CEO, I measure each aspect (discussed below), standardize them, and calculate the sum of the four positive indicators of CEO mobility (charisma, general human capital, social capital and outcome measurability) minus the negative indicator of CEO mobility (ranking of the CEO based on total compensation within the industry) for each CEO. I reverse the ranking of the CEO based on total compensation within the industry, because it represents the reverse of the availability of alternative contracts (CEOs who are ranked the highest have the fewest alternative contracts available to them).

I measure the *availability of alternative contracts* by ranking (1 being the highest) each executive based on their total compensation within their primary industry, which I identify by a 2-digit SIC

code. This measure represents the reverse of availability of alternative contracts for each executive in her/his industry. In the case of highest paid executive, there are zero alternative contracts as she/he is the highest paid in the industry and any contract will be worth less than the current.

Following extant research I use several indicators of *general human capital*. First, to measure managerial experience (Finkelstein and Hambrick, 1989) I use the number of years an executive has been a member of top management team in firms other than the current one. I also measure the number of years the CEO was with current company to control for firm-specific human capital. Additionally, I measure the formal education of each CEO by creating a variable coded as 1 if the executive has an MBA and zero otherwise (Kimberly and Evanisko, 1981; Bantel and Jackson, 1989; Ridge, Aime, and White, 2014) and another variable that was coded as a 1 for CEOs who possesses an education from an Ivy League University and a 0 otherwise (Miller, Xu, and Mehrotra, 2014).

I measure *social capital* by calculating the number of external directorships held by the CEO. This is a widely used measure of social capital (Geletkanycz, Boyd, and Finkelstein, 2001; Ferris, Jagannathan, Pritchard, 2003; Mitra, Hossain, and Deis, 2007; Tian, Haleblan, and Rajagopalan, 2011) and captures the access of executives to broader social networks and information.

Agent's Charisma. To measure individual charisma of CEOs, I use the videometric analysis procedure described in Petrenko, Aime, Ridge and Hill (forthcoming). In this measurement approach trained, third party raters watch videos of executives and evaluate them based on established and validated scales. Third party ratings have been meta-analytically shown to provide higher validity of personality traits compared to self-reports (Oh, Wang, and Mount, 2011) and are not subject to the inflation of self-reports (Van Iddeking, Raymark, and Roth, 2005; Connelly and Hulsheger, 2010). Additionally, this technique uses unobtrusive measures and does

not require direct access to a large sample of CEOs, who might be reluctant to participate in survey research (Chatterjee and Hambrick, 2007, 2011). Third party ratings has also been extensively used in social and psychological research (Raskin, Novacek and Hogan, 1991; Borkenau and Liebler, 1993; Mount, Barrick, and Strauss, 1994; Riemann, Angleitner, Strelau, 1997; Rubenzer, Faschingbauer, and Ones, 2000; Judge, Bono, Ilies, and Gerhardt, 2002; Benjamin and Shapiro, 2009; Zimmerman, Triana, and Barrick, 2010).

The videos of executives are obtained from publically available sources such as company websites, Youtube, and MSNBC. Upper-class management students are recruited to serve as raters and are offered extra credit to participate in the study. Three raters, blind to the study hypotheses rate each CEO using validated scales. Charisma is measured using 10-item scale from Agle, Nagarajan, Sonnenfeld and Srinivasan (2006). The scale is 7-point Likert-type with anchors ranging from “1 – strongly disagree” to “7 – strongly agree.”

The design of the study is as follows. First, all the raters are trained and familiarized with the scales. They watch three sample videos and are asked to rate the individuals they observed. The videos are on average two and a half minutes long. This has been determined to be an appropriate length to make a stable assessment (Petrenko, Aime, Ridge and Hill, forthcoming). Raters are notified during the training session that the focus of the study is to get their perceptions of the individuals, that there is no alternative interest in their responses, and that researchers are not evaluating them in any way. After a question and answer session, raters log in to password-protected website where they can watch the rest of the videos followed by a questionnaire after each video. There is a random assignment of raters to CEOs, which is done in such a way that every CEO is evaluated by three different raters. To ensure validity of the measures, the scale reliability is measured using Cronbach alpha and the interrater agreement is measured using both ICC (1,3) and r_{wg} (Bliese, 2000). I have calculated both ratings using the procedures suggested by

LeBreton and Senter (2008). The scale demonstrated high reliability ($\alpha=0.949$), high interrater reliability ($ICC(1,3) = .511$), and strong agreement ($r_{wg} = 0.85$).

Outcome measurability is the degree to which managerial actions can be clearly linked to performance outcomes. It is a characteristic of external environment, and can be applied to the industry. In some industries, where there is little variation in performance among the firms, it is difficult to link actions of the CEOs to the performance, because most of the firms are performing around industry average (i.e. there is little dispersion around the mean). However, in other industries where the dispersion around the mean is considerable, the performance outcomes can be easier attributed to firm strategy and CEO's decisions. The best way to capture outcome measurability of the industry is by looking at variance of performance distribution. As the variance in performance increases, so does the outcome measurability. I use industry's variance in operational performance to capture outcome measurability. I identify industries by the unique 2-dig SIC code.

To create the overall index of mobility, first I standardize every individual measure. Then I create a sum of the four measures that are positive indicators of mobility (charisma, wide social capital, general human capital and outcome measurability). The rank of the CEO in the industry represents lack of alternative contracts; therefore it is a negative indicator of mobility. Thus, I subtract it from the sum of the other four indicators. The variable created represents an index of CEO mobility.

I measure *incentive pay* as the fair value of options granted to the CEO during the given year as reported by the company. *Managerial ownership* is measured as the percentage of common stock owned by the CEO. Following Miller, Wiseman, and Gomez-Mejia (2002) I measure *contingent pay* as the sum of cash, bonuses, long-term incentive pay, and stock options paid divided by the total pay to the CEO in a given year.

Control variables

I control for several industry- firm- and CEO- level potential confounding factors.

CEO control variables. Because Age can be an important factor affecting mobility, I control for CEO Age. I also control for indicators of CEO structural power (Finkelstein, 1992) that might influence ex ante driven agency behaviors, include CEO tenure and duality (coded as a 1 if the CEO is also a chairman of the board, and as a 0 otherwise). I also include an indicator variable, that equals 1 if the CEO was an inside hire and 0 otherwise.

Firm control variables. Because larger firms might compensate more than smaller firms, I control for firm size by using a log of firm's assets. I also control for availability of slack resources by using the ratio of current assets to current liabilities. To account for the possibility that previous trends idiosyncratic to the firm might influence future activity, I include the lagged dependent variable in the analyses of every model.

Industry control variables. To account for idiosyncratic differences between industries, I include an industry dummy (2 digit SIC code) in my analyses.

Analysis

I estimate my models using a dynamic panel model with Arellano and Bond method (Arellano and Bond, 1991; Arellano and Bover, 1995; Greene, 2000). The Arellano-Bond estimator proceeds by transforming regressors using the differentiation and the Generalized Methods of Moments (GMM) (Hansen, 1983). This method is especially effective in analyzing auto-regressive-distributed lag models from panels where cross-sectional units observed for relatively few time periods in which endogeneity might be present. As mobile CEOs might be drawn to certain firms (e.g. that use aggressive diversification and tend to favor riskier strategies), the Arellano and Bond method is the most suitable. The instrumentation strategy in my models is to

use lagged values of the regressors as instruments of the first differenced regressors (Barkema and Schijven, 2008; Wade, Porac, Pollock and Graffin, 2006). This strategy has been recommended by the experts (Roodman, 2006; 2007) and has been widely utilized in research (e.g. Wade, Porac, Pollock and Graffin, 2006; David, Yoshikawa, Chari, and Rasheed, 2006). Prior to the analysis I have tested my data for heteroskedasticity following Greene (2000, p. 598). The test showed the presence of groupwise heteroskedasticity ($p > 0.0001$). Therefore, to ensure robustness of my results to heteroskedasticity and non-normality, I use a robust variance estimator.

The Arellano-Bond analysis is unbiased and asymptotically consistent only if there is no autocorrelation in the residuals (Arellano, 2003), which is tested using the AR(2) test. Failure to reject the null hypothesis of autocorrelation in the first-differenced errors means that the Arellano-Bond estimator is asymptotically consistent. This test is applied to the first-difference equation residuals of the balanced matrix following the generalized m_{ς} version of the original test (Arellano, 2003: 121-123). For all the models in this dissertation I failed to reject the null hypothesis of no autocorrelation in the first-differenced errors, which means that the Arellano Bond estimator is asymptotically consistent.

The Hansen test is used to evaluate the validity of the instruments and assure that the instruments are not correlated with the error term. The test of validity of the moment restrictions has two null hypotheses: (1) the instruments are not correlated with the errors, and (2) the instruments should not have been included in the model as explanatory variables (Kennedy, 2005). The statistic has a chi-square distribution with the degrees of freedom equal to the number of instruments minus the number of predictors. Failure to reject the null means that the restrictions are valid. My tests show that the restrictions are valid in all of the models (I failed to reject the null hypothesis).

CHAPTER V

RESULTS

The correlation table is presented in Table 1. Tables 2 through 6 present tests of the hypotheses. The coefficient estimates presented are unstandardized and standard errors are reported in the brackets following the estimated coefficients. The appropriate test for all single parameter estimates is based on the z -ratio and I highlight the significant results at 0.05, 0.01 and 0.001 probability levels. Result tables also report the number of observations, AR (2) test statistic and the probability of rejecting the null hypothesis (absence of auto correlated residuals). I also report Wald χ^2 for each model. In each table I include the model containing only controls and the full model. In the next paragraphs I present the results for each of the hypotheses included in this dissertation. Overall, I find support for Hypotheses 2, 4 and 5. My results are opposite of what I predicted for Hypothesis 3. Hypothesis 1 is not supported.

Hypothesis 1 posits that CEO mobility will negatively moderate the relationship between stock option incentives and risk-seeking behaviors at high and low levels of agent mobility. The non-linear relationship posited by H1 is not supported. Table 2 presents the results for the GMM dynamic panel estimation of the interaction effect between CEO mobility and stock option incentives on risk-seeking behavior. Model 1 in Table 2 shows the results for a model that includes only controls, and Model 2 shows the results of the full model. The results indicate that interaction term for the squared mobility and stock options incentives is not significant. However, the results indicate that the effect of the interaction between CEO mobility and stock options

incentives is positive and significant ($\beta=0.003, p < 0.05$). I address the theoretical implications of this result, which was not hypothesized in my original theorizing, in the discussion section of this dissertation.

Hypothesis 2 posits that CEO mobility will negatively moderate the relationship between managerial ownership and performance. Hypothesis 2 is supported. Table 3 shows the GMM dynamic panel estimation results for the control-only model (Model 3) and the full model (Model 4). The coefficient for the interaction between CEO mobility and managerial ownership is negative and significant ($\beta=-0.004, p < 0.01$). Figure 6 graphically presents the interaction effect. It shows that CEO ownership does not have a significant effect on performance for CEOs who are low on mobility, but that effect is negative for CEOs with high mobility. I also conducted a supplementary analysis to test another specification of the model. I used a market-based measure of performance (Tobin's Q). The results are in the same direction, but the interaction is not significant.

Hypothesis 3 posits that CEO mobility will negatively moderate the relationship between CEO contingent compensation and performance. Hypothesis 3 is not supported. The results of the GMM dynamic panel estimation are provided in Table 4 and include the control-only model (Model 5) and the full model (Model 6). The coefficient for the interaction between CEO mobility and contingent pay is positive and significant ($\beta=0.002, p < 0.05$). This result is opposite of what was hypothesized and I propose a theoretical explanation in the discussion section of this dissertation. Figure 7 graphically presents the interaction. The interaction plot shows that contingent pay has a positive effect on performance for the firms of CEOs with high mobility, and but no significant effect for the firms where CEOs have low mobility. I have also specified

the model using the market measure of performance (Tobin's Q). The results are consistent and the interaction is positive and significant ($\beta=92.044, p < 0.001$).

Hypothesis 4 posits that that CEO mobility will be negatively related to change in diversification.

Hypothesis 4 is supported. Table 5 shows the control-only and the full model for the GMM dynamic panel estimation. The coefficient for the CEO mobility is negative and significant ($\beta=-0.068, p < 0.05$). The data for diversification of firms had a large number of missing observations.

As a supplementary analysis, I have replaced missing observations with zeroes (indicating that the company has not made any changes in its diversification strategy) and the results are consistent: the coefficient for the change in diversification remained negative and significant ($\beta=-0.065, p < 0.05$), while increasing the count of observations by 288.

Hypothesis 5 posits that CEO mobility will be positively related to increase in compensation.

Hypothesis 5 is supported. Table 6 presents the control-only model (Model 9) and the full model (Model 10) for the GMM dynamic panel estimation. The coefficient for CEO mobility is positive and significant ($\beta=0.832, p < 0.05$).

CHAPTER VI

DISCUSSION AND CONCLUSIONS

This study developed a general model of ex ante agency costs and examined the impact of agent mobility as a previously unexplored alignment mechanism in the agency relationship. Previous empirical research produced mixed and inconsistent findings regarding the predictions of traditional Agency Theory (Kiser, 1999; Tosi, Werner, Katz, and Gomez-Mejia, 2000; Frydman and Jenter, 2010; Westphal and Zajac, 2013) and scholars proposed expanding the agency model beyond the simplistic and undersocialized traditional rational choice model (Perrow, 1986; Kiser, 1999; Wiseman, Cuevas-Rodriguez, and Gomez-Mejia, 2012). To reconcile the mixed empirical findings and theoretical criticism, I proposed that the ex ante agency costs should not be assumed away, but rather be included in the agency model. I argued that there are opportunities for agency behaviors that are implicit in the ex ante costs of agency contracts. The results of my tests show that the ex ante agency costs and the behaviors associated with them should be considered in agency theorizing and empirical research.

Agent Mobility and the Reduction in the Downside Risk

I theorized that agents should be less sensitive to incentive alignment at high and low ends of mobility (H1). For the agents who are low on mobility their perception of downside risk is exacerbated by their low mobility, because they do not have alternatives to their current contract in the market for contracts. I also theorized using the exchange logic that highly mobile

agents, having more alternatives in the market for contracts available to them, are less dependent on their current contract and less sensitive to its incentive structure. Using these arguments I hypothesized that agent mobility will weaken the effect of incentives at high and low ends of the mobility spectrum leading to a non-linear interaction effect.

The results of this study do not provide support for the non-linear effect of the interaction between agent mobility and stock option incentives on risk-seeking behaviors. The results of the tests show that there is a significant and positive interaction between agent mobility and stock options incentives. Essentially, mobility amplifies the increase in the upside potential gains associated with stock options. One possible explanation for these results may be that for the full range of the sample, another theoretical argument (reduction of the downside risks as per Agency Theory) is more relevant than the exchange explanation I espoused in this dissertation. According to the traditional agency logic stock options are designed to increase the upside potential gains without an increase in the downside risk. This is because option holders do not invest anything in acquisition of the options and face no actual risk to their personal wealth (Devers, McNamara, Wiseman, and Arrfelt, 2008). Thus, stock options have asymmetric risk properties with an opportunity for potential gain without downside threats to the current wealth (Lawler, 2000; Sanders, 2001). Yet, the downside risk to the personal wealth and employment is still present for the agent, which can lead to executives not responding fully to the upside potential for gains provided by the stock options. Mobility of the agent decreases the perception of the downside risk by the agent as the availability of alternatives in the market for contracts increases. The reduction in the downside risk due to improved mobility can potentially have a synergetic effect coupled with stock options' increase in the upside potential, making the utility function of the agent more sensitive to the upside potential gains. This logic of Agency Theory offers a plausible explanation for the positive interaction effect of agent mobility and stock option incentives on the risk-seeking behaviors found in the results of this dissertation.

Exchange processes, as the ones argued in this dissertation, however, may be present when the alternatives in the market for contracts increase to the point that the market exchange becomes increasingly more salient than the exchange with the current principal. Essentially, at high levels of mobility agent's utility function might favor the market over the principal and the structure of the current contract. This reorientation of agent's utility might not exist through the whole range of mobility, but only when the prospects of mobility are large enough. With this logic in mind, I conducted an analysis for the executives in the top 25% mobility of the sample. The interaction changes the direction (from positive to negative), but it is not statistically significant. The results of this supplementary analysis do not provide definite support for the exchange logic used in my theorizing, but may be an indication that the interaction effect of mobility and stock options is not consistent throughout the entire spectrum of mobility. Exploring this logic further, I tested the interaction for the CEOs who are in the lowest 25% mobility of the sample. The results show that the interaction is negative and significant ($\beta=-0.046, p < 0.01$). The finding of this supplementary analysis may be explained by my original argument that, when agents become increasingly constrained in their mobility, their perception of the downside risk is the most salient in their utility function and large enough to lower their sensitivity to the upside potential for gains associated with stock option incentives. Potentially there should exist a point at which, as agent's mobility increases and their downside risk is reduced, their utility function becomes more sensitive to the upside potential for gains and any further decrease in their downside risk due to improved mobility exacerbates the effect of stock option incentives. Testing the interaction effect on the sub-sample of the CEOs in the middle 50% mobility of the sample provides support for this logic. The coefficient is positive, bigger in magnitude and significance when compared to the full sample ($\beta=0.136 p < 0.001$).

The logic of the reduction in the downside risk associated with agent mobility can also be applied to the explanation of the result for Hypothesis 3, which was the opposite of the hypothesized

relationship. Hypothesis 3 posited that agent mobility will attenuate the relationship between contingent pay and performance. However, the result is the opposite and does not support the theoretical argument based on the salience of exchanges in the market for contracts versus the exchanges with the principals. A plausible explanation may be that due to the reduction in the downside risk agents become more responsive to the additional pay-for-performance incentives (similar to the increased responsiveness to stock option incentives). Essentially, agent mobility provides additional alignment not only of risk preferences (e.g. stock option incentives), but also of goals between agents and principals. The goal alignment is primary motivation behind performance-contingent compensation in the logic of traditional Agency Theory (Jensen and Fama, 1983a; Jensen and Murphy, 1983; Eisenhardt, 1989). Because mobility decreases the downside risk for the agent, while increasing upside potential for gains in the market for contracts, it can act as an additional alignment mechanism in concordance with the contingent pay resulting in better alignment and, therefore, improved performance implications. As I have used exchange logic in the arguments leading to Hypothesis 3 (similar to Hypothesis 1), I conducted similar supplementary analyses testing the interaction effect of agent mobility and contingent pay on the split sample (the bottom 25% mobility, the middle 50% mobility and the top 25% mobility). The results of these analyses show that the interaction is stronger and significant in the middle 50% portion of the sample ($\beta=0.013$, $p < 0.001$), and is insignificant at the high and low portions of the sample.

Together the results for Hypotheses 1 and 3 provide support to the argument that the agency logic of decrease in the downside risk is a relevant explanation for the effect of the agent mobility on the relationship between stock option incentives and risk-seeking behaviors and the relationship between performance-contingent pay and performance. These findings support adopting a more comprehensive view of agency behaviors where both the upside potential for gains and the changes in the downside risk should be present and examined simultaneously. Focusing on either

one of them exclusively can lead to models that are not complete and provide inconsistent results. Agency models should fully examine the agent's downside risk that is associated with loss of personal wealth and employment. This study shows that the reduction of the downside risk that is associated with improved mobility may a) interact with increase in the potential for gains from stock options to improve the alignment of the risk preferences between the agent and the principal, and b) interact with contingent pay to improve the alignment of goals between the agent and the principal.

Yet, the behavior of highly mobile CEOs may be better explained by understanding their social and market embeddedness as their utility function is less dependent on their current contractual arrangement and social and market factors increase in importance. Highly mobile CEOs may become less sensitive to the incentive structure and performance-contingent compensation of their current contract, as their motivation becomes less driven by the economic incentives and other factors (e.g. competition for alternative contracts) become salient when their dependence on their current contract diminishes and the opportunities in the market for contracts increase. At the low values of agent mobility spectrum, in line with my original theorizing, stock options might not overcome the risk-aversion that is associated with the downside risk, which is increased by the constrained mobility of the CEOs, who are at the lowest levels of mobility spectrum. Highly immobile agents' perception of downside risk increases and becomes very salient, and they behave rationally by responding less to incentives that increase their upside potential gains.

The findings that mobility exacerbates the effects of stock option incentives on risk-seeking and of contingent pay on performance indicate that agent mobility can serve as an additional mechanism to align agents' risk preferences and goals with the ones of the principals. These findings have important practical implications regarding organizations' treatment of employees' mobility. Research in strategic human capital has emphasized the role of firm-specific human capital as a source of competitive advantage and has provided insights on the isolation

mechanisms to constrain employee mobility and reduce the risk of voluntary turnover (Coff, 1997; Campbell, Coff, and Kryscynski, 2012). However, the findings of this study show that mobility can act as an additional alignment mechanism of risk preferences and goals between agents and principals. Thus, firms may benefit from improving the mobility of their agents rather than restricting it. There is an opportunity for better alignment of risk preferences and goals between the agent and the principal via a combination of proper incentive structure, performance-contingent compensation and agent mobility. Additionally, restricting agent's mobility might lead to increasing the agent's downside risk to the point where the agent becomes less responsive to the incentive structure of the current contract.

Agent Mobility and the Market Exchange

While the results of Hypotheses 1 and 3 do not provide conclusive evidence for the exchange logic of agency, the results for the Hypothesis 2 support that logic. I hypothesized that agent mobility will attenuate the relationship between agent ownership and performance, because as the mobility of agents increases there are more market exchange opportunities for them. Thus, highly mobile agents are more likely to shift their attention to the exchanges with the market for contracts, and their exchange with the principal will be less salient in their utility function. In other words, the importance of market incentives in the market for contracts increases while the importance of the structure of the current contract decreases, leading to the attenuation of the effect that agent ownership has on firm performance. The results support my theorizing regarding the relationship between ownership structure and performance – CEO mobility negatively moderates the relationship between CEO ownership and performance. The results of H2 support the argument that increase in the ownership of the firm is a reliable alignment mechanism for the agents who are limited in their mobility and do not have many opportunities in the market for contracts. However, as their mobility increases, they become less responsive to the increase on their ownership of the firm.

Expansion of the Market for Contracts and the Cost of Mobility

I predicted that agents who lack mobility could use unrelated diversification to expand their market for contracts; therefore agent mobility should be negatively related to changes in diversification (H4). The results provide support for this relationship showing that as CEO mobility increases, the agents are less likely to increase diversification of their firms. This finding provides evidence that the ex ante driven behaviors can be agentic in nature. Diversification can be costly to firms and acquisitions are often considered to be risky and have negative effect on performance (Palich, Cardinal, and Miller, 2000; Sanders and Hambrick, 2007). Therefore, when the increased diversification is driven by agent's attempt to expand the market for contracts rather than by performance considerations, it can be considered an agency cost of restrained mobility. This is an ex ante agency cost that is an expenditure made by the agents to promote their value in the market for contracts (self-serving market for contracts expansion).

On the other hand, I theorized that ex ante costs also include a residual loss portion that can arise from the increased bargaining power of the agents due to their position in the market for contracts. I predicted that CEO mobility carries a cost that is associated with increased changes in compensation for mobile agents (H5). As the agent's opportunities in the market for contract increase and their dependence on the current contract decreases, the power balance shifts, favoring the agent in the agency relationship. The results support my prediction and show that the compensation of mobile agents increases at a higher rate compared to their lesser mobile peers.

The above results highlight that the ex ante agency costs are as real as any other costs and can result from restrained mobility driving the agent to use organizational resources to expand the market of available contracts. Yet, as agents become more mobile, they can appropriate some of the ex ante agency costs via negotiation of the better contract with the current principal.

Following the logic of the traditional agency perspective, the need for monitoring arises not only

to minimize the ex post agency costs but also the ex ante agency costs. Therefore, the solution to the agency problem lies not only in the efficient contractual arrangement, but also in monitoring that minimizes both ex post and ex ante agency costs.

Limitations

This dissertation has several limitations that open avenues for the future research. First, although this dissertation takes a first step in developing a theoretical framework for the ex ante agency costs, there is an opportunity for further theoretical research that would develop a more comprehensive model of the ex ante agency costs and agent mobility. Specifically, the five aspects of agent mobility that I develop in this dissertation are not exhaustive and a more comprehensive model of agent mobility can be developed in the future work that would include factors that enhance mobility beyond the ones presented in this dissertation. These factors can represent additional demand-side (market) and supply-side (internal to the agent) aspects of agent mobility.

Second, even though I examined an important set of agency predictions that are either exacerbated or attenuated by agent mobility acting as an additional alignment mechanism, it is important to consider the impact of agent mobility on other agency predictions and outcomes. For example, the interaction of agent mobility with monitoring has been left outside of the scope of this dissertation. Yet, monitoring is an important part of Agency Theory that deals with minimization of the ex post (classical) agency costs. Monitoring can also prove to be effective in minimizing the ex ante costs as well and future research could study the interaction of different monitoring mechanisms (e.g. board independence, board vigilance, and director experience) and agent mobility.

Third, this dissertation attempted to bring a more socialized view of agency by positioning the agency relationship as embedded in the market and social context. The results provide some

support for the importance of the social aspect in agent's behavior, yet they are inconclusive and fit better within the rational choice models of the traditional agency theory. However, there is still an opportunity for the future research to explore the social aspects of the agency relationship.

Finally, on the empirical level, it would be important to test the generalizability of the findings to the CEOs of the larger sample of firms. One of the limiting factors in this study is the inclusion of agent's charisma as an aspect of mobility. While I believe this is an important contribution that expands the view of the agent beyond the model of an economic rational man, the collection of data on executive charisma presents a challenge due to the lack of its availability. Omitting agent charisma as an indicator of mobility presents an opportunity for future research to test models similar to the ones in this dissertation on a larger sample of firms. Using a larger sample of firms will also provide the needed additional statistical power to examine the effects of agent mobility at the extreme levels.

Conclusions

The findings of this dissertation are relevant for management research for a number of reasons. First, the main implication of this study is that agent mobility is a previously unexplored alignment mechanism in the agency relationship that decreases the downside risk associated with employment and with the dependence on the current contract. Agent mobility can produce enhanced alignment of the risk preferences and goals between the agent and the principal. This study extends the theoretical scope of Agency Theory to include both the factors that affect the upside potential for gains, and also the ones that change agent's perception of the downside risk that is associated with loss of personal wealth and employment. Doing so requires a shift in the locus of the contract from the dyadic agent-principal relationship to a more general and inclusive view of the agency contract that is embedded in the social and market context of the market for contracts.

Second, this study shows that there are agency behaviors that exceed the orbit of the contract and that agency theorizing may be strengthened by expanding the theory to include the ex ante agency costs. These costs do not disappear with the creation of the contract and stem from the mobility of the agents and their embeddedness in the market for contracts. The more general and comprehensive view of the agency provides the theory with needed flexibility to model the complexity of the agency relationship while maintaining parsimony. The results of this dissertation show that the motivations of the agent are economically rational, yet subject to alternative explanations at high and low ends of mobility spectrum. These alternative explanations (e.g. exchange processes at high end of mobility) are not competing, but rather are complementary, because they work simultaneously in determining the agent's behavior, and their saliency changes as agent's mobility improves or becomes constrained.

Third, this study has important practical implications, because it identifies agent mobility as a previously unexplored alignment mechanism in the agency relationship. The results indicate that, contrary to some research in strategic human capital, executive mobility can improve the alignment of goals and risk preferences between the agents and the principals. Specifically, this study shows that CEO mobility exacerbates the relationship between stock option incentives and risk-seeking, and between contingent pay and performance. Essentially, restricting the mobility of executives might have negative implications for organizations that want to reduce the agency costs. A more effective solution might be that, instead of restricting mobility of the executives, organizations should devise effective monitoring systems that minimize not only the ex post agency costs, but also the ex ante agency costs.

Third, this dissertation answers the recent calls towards a more socialized and contextual theory of agency (Martin, Gomez-Mejia, Wiseman, 2013; Westphal and Zajac, 2013) by adopting a socialized view of the agent, who is embedded in the wider context of the market for contracts. The agency relationship does not exist in a vacuum and the dyadic view of the agency ignores the

important factors that affect the agency, such as the market for contracts. This study takes an important step towards understanding the factors that are beyond the characteristics of the agent and the principal and lie outside of the traditional conceptualization of the agency as a dyadic relationship. This dissertation can promote further research that expands our understanding of agency beyond the rational choice models and does not rely on the overly simplistic locus of the contract that is at the center of the agency relationship. Yet, the rational choice models do not need to be rejected and are applicable in explaining the results of this study. Rather than discarding them and rejecting the premises of Agency Theory, future research should build upon them and integrate rational choice models in the social context.

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TABLES

Table 1. Descriptive statistics and correlation coefficients.

Variable	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12
1. CEO mobility	.19	2.23												
2. CEO stock incentives*	2.70	5.96	-.02											
3. CEO ownership	13.36	36.76	-.20	.35										
4. CEO cont. compensation	.37	.73	-.03	.36	.04									
5. CEO age	54.46	6.08	.08	.10	.17	-.06								
6. CEO tenure	17.92	10.94	-.04	.07	.16	-.11	.33							
7. CEO duality	.63	.48	.19	-.07	.01	-.09	.30	.20						
8. Insider (1=yes)	.90	.30	-.01	-.22	-.21	-.08	-.08	.18	-.01					
9. CEO total compensation*	13.47	22.67	.03	.48	.24	.12	.13	.13	.05	-.16				
10. CEO short-term pay*	1.46	3.02	.02	.09	-.02	.03	.05	.01	-.01	-.06	.22			
11. ROA	.07	.07	-.02	.03	.08	-.08	.03	.15	.01	.02	.09	-.07		
12. Size (log of assets)	9.46	1.26	.12	.11	-.10	-.06	.13	.16	.19	.12	.12	.15	-.34	
13. Unabsorbed Slack*	2.11	7.68	-.03	.07	.01	-.02	.03	.01	-.02	.03	.05	.03	-.04	.43

* - Scaled by 1000

Table 2. Results for the effects of in the non-linear interaction between CEO Mobility and Stock Option Incentives on Risk

Table 2. Results for the effects of in the non-linear interaction between CEO Mobility and Stock Option Incentives on Risk (Hypothesis 1)

	Model 1		Model 2	
	DV: Risk(t+1)		DV: Risk (t+1)	
Constant	-0.596*	(0.321)	-1.117***	(0.334)
Lagged DV	0.954***	(0.019)	0.967***	(0.021)
Size (log of assets)	0.032	(0.025)	0.054*	(0.026)
ROA	1.966***	(0.401)	1.973***	(0.359)
Unabsorbed Slack	-0.001	(0.001)	-0.001	(0.001)
CEO age	0.008	(0.005)	0.015**	(0.004)
CEO tenure	-0.001	(0.003)	-0.001	(0.003)
CEO Duality	0.042	(0.059)	-0.001	(0.064)
Insider	0.035	(0.107)	-0.028	(0.136)
CEO total compensation	-0.006	(0.006)	-0.003	(0.006)
CEO short-term pay	0.007	(0.011)	-0.006	(0.015)
CEO Stock Incentives			0.002	(0.004)
CEO Mobility			-0.035**	(0.013)
CEO Mobility ²			-0.002	(0.002)
CEO Mobility x Stock Incentives			0.003*	(0.001)
CEO Mobility ² x Stock Incentives			0.005	(0.004)
Observations		1217		1217
AR (2)		-0.64		-1.05
Probability > z		0.520		0.295
Wald Chi ²		4707***		4542***

Notes: standard errors are in parentheses; * p < 0.05, ** p < 0.01, *** p < 0.001.

Table 3. Results for the effects of the interaction between CEO Mobility and Ownership on Performance

Results for the effects of the interaction between CEO Mobility and Ownership on Performance (Hypothesis 2)

	Model 3		Model 4	
	DV: ROA(t+1)		DV: ROA (t+1)	
Constant	0.257**	(0.096)	0.194**	(0.071)
Lagged DV	0.361***	(0.092)	0.357***	(0.082)
Size (log of assets)	-0.022***	(0.005)	-0.019***	(0.004)
Unabsorbed slack	0.001**	(0.001)	0.001*	(0.001)
CEO age	-0.002	(0.002)	-0.001	(0.001)
CEO tenure	0.002*	(0.001)	0.002**	(0.001)
CEO duality	0.016	(0.010)	0.011	(0.008)
Insider	0.059	(0.044)	0.004	(0.018)
CEO total compensation	-0.001	(0.001)	0.001	(0.001)
CEO short-term pay	-0.003*	(0.001)	-0.003**	(0.001)
CEO stock incentives	0.005	(0.010)	0.001	(0.001)
CEO ownership			-0.001	(0.001)
CEO mobility			0.003	(0.002)
CEO mobility x ownership			-0.004**	(0.001)
Observations		1217		1217
AR (2)		0.63		0.53
Probability > z		0.529		0.598
Wald Chi ²		182***		370***

Notes: standard errors are in parentheses; * p < 0.05, ** p < 0.01, *** p < 0.001.

Table 4. Results for the effects of the interaction between CEO Mobility and Contingent Pay on Performance

Results for the effects of the interaction between CEO Mobility and Contingent Pay on Performance (Hypothesis 3)

	Model 5 DV: ROA(t+1)	Model 6 DV: ROA (t+1)
Constant	0.191* (0.077)	0.171* (0.068)
Lagged DV	0.319*** (0.066)	0.330*** (0.067)
Size (log of assets)	-0.023*** (0.005)	-0.021*** (0.005)
Unabsorbed Slack	0.001 (0.001)	0.001 (0.001)
CEO age	0.001 (0.001)	0.001 (0.001)
CEO tenure	0.002* (0.001)	0.002* (0.001)
CEO duality	-0.008 (0.014)	-0.012 (0.012)
Insider	0.024 (0.033)	-0.008 (0.025)
CEO total compensation	-0.001 (0.002)	-0.001 (0.001)
CEO stock incentives	0.004 (0.008)	0.002 (0.006)
CEO contingent compensation		0.002* (0.001)
CEO mobility		0.002 (0.002)
CEO mobility x contingent compensation		0.002* (0.001)
Observations	1217	1217
AR (2)	0.48	0.37
Probability > z	0.631	0.694
Wald Chi ²	182***	331***

Notes: standard errors are in parentheses; * p < 0.05, ** p < 0.01, *** p < 0.001.

Table 5. Results for the effect of CEO Mobility on Change in Diversification

Results for the effect of CEO Mobility on Change in Diversification (Hypothesis 4)

	Model 7		Model 8	
	DV: Δ Diversification(t+1)		DV: Δ Diversification (t+1)	
Constant	-1.193	(1.127)	-1.304	(1.134)
Lagged DV	-0.374***	(0.071)	-0.334***	(0.058)
Size (log of assets)	0.102	(0.098)	-0.081	(0.092)
ROA	2.458	(1.415)	1.708	(1.244)
Unabsorbed slack	0.001	(0.001)	0.001	(0.001)
CEO age	0.022	(0.020)	0.011	(0.018)
CEO tenure	-0.003	(0.016)	0.006	(0.013)
CEO duality	-0.238	(0.307)	-0.259	(0.270)
Insider	-0.275	(0.457)	-0.158	(0.467)
CEO total compensation	-0.002	(0.002)	-0.002	(0.002)
CEO short term pay	-0.003	(0.008)	-0.007	(0.009)
CEO stock incentives	0.001	(0.002)	0.009	(0.019)
CEO mobility			-0.068*	(0.031)
Observations		754		754
AR (2)		0.48		0.50
Probability > z		0.629		0.618
Wald Chi ²		76.22***		60.24***

Notes: standard errors are in parentheses; * p < 0.05, ** p < 0.01, *** p < 0.001.

Table 6. Results for the effect of CEO Mobility on Change in Total Compensation

Results for the effect of CEO Mobility on Change in Total Compensation (Hypothesis 5)

	Model 9		Model 10	
	DV: Δ Compensation		DV: Δ Compensation	
Constant	-6.315	(13.684)	-9.357	(12.668)
Lagged DV	-0.549***	(0.024)	-0.539***	(0.011)
Size (log of assets)	0.603	(1.257)	-1.075	(1.253)
ROA	17.353	(14.451)	-5.762	(16.18)
Unabsorbed slack	0.003*	(0.001)	0.001	(0.001)
CEO age	-0.261	(0.282)	0.133	(0.180)
CEO tenure	-0.175	(0.169)	-0.353*	(0.146)
CEO duality	-0.238	(0.307)	-4.379	(2.832)
Insider	7.115	(9.341)	14.970*	(7.508)
CEO total compensation	1.054	(0.077)	1.156***	(0.067)
CEO short term pay	-0.007**	(0.008)	-0.006***	(0.001)
CEO stock incentives	-0.001	(0.001)	-0.002*	(0.001)
CEO mobility			0.832*	(0.409)
Observations		1217		1217
AR (2)		-1.15		-1.13
Probability > z		0.250		0.257
Wald Chi ²		76.22***		56.22***

Notes: standard errors are in parentheses; * p < 0.05, ** p < 0.01, *** p < 0.001.

FIGURES

Figure 1. Agent mobility at Different Levels of Performance and Outcome

Measurability

	Low Performance	Average Performance	High Performance
OM = low	Mobility = Below Average	Mobility = Average	Mobility = Above Average
OM = moderate	Mobility = Low	Mobility = Average	Mobility = High
OM = high	Mobility = Very Low	Mobility = Average	Mobility = Very High

OM – Outcome Measurability

Figure 2. The Moderating Effects of Agent mobility on Agency Theory's Predictions

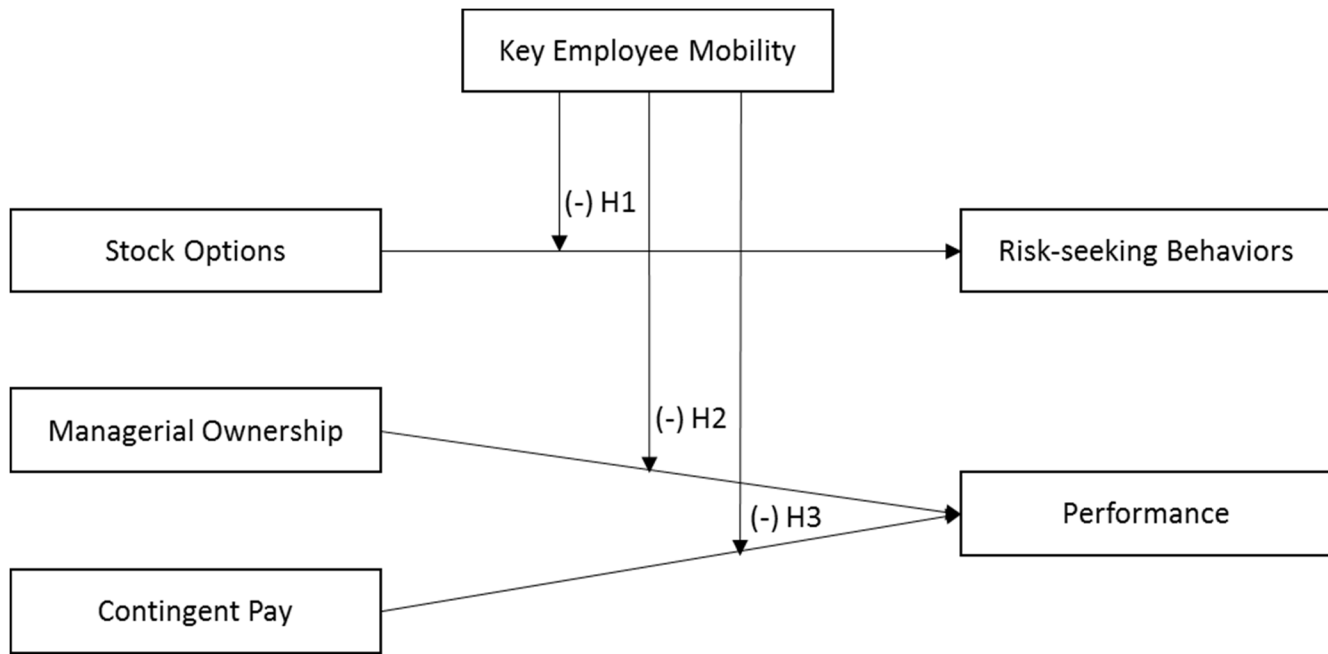


Figure 3. Effect of Interaction of Agent mobility and Incentives on Agent's Risk Preferences

		Incentives	
		High	Low
Mobility	High	Risk-seeking	Risk-seeking
	Moderate	Risk-seeking	Risk-averse
	Low	Risk-averse	Risk-averse

Figure 4. Value Appropriated by the Agent and the Principal

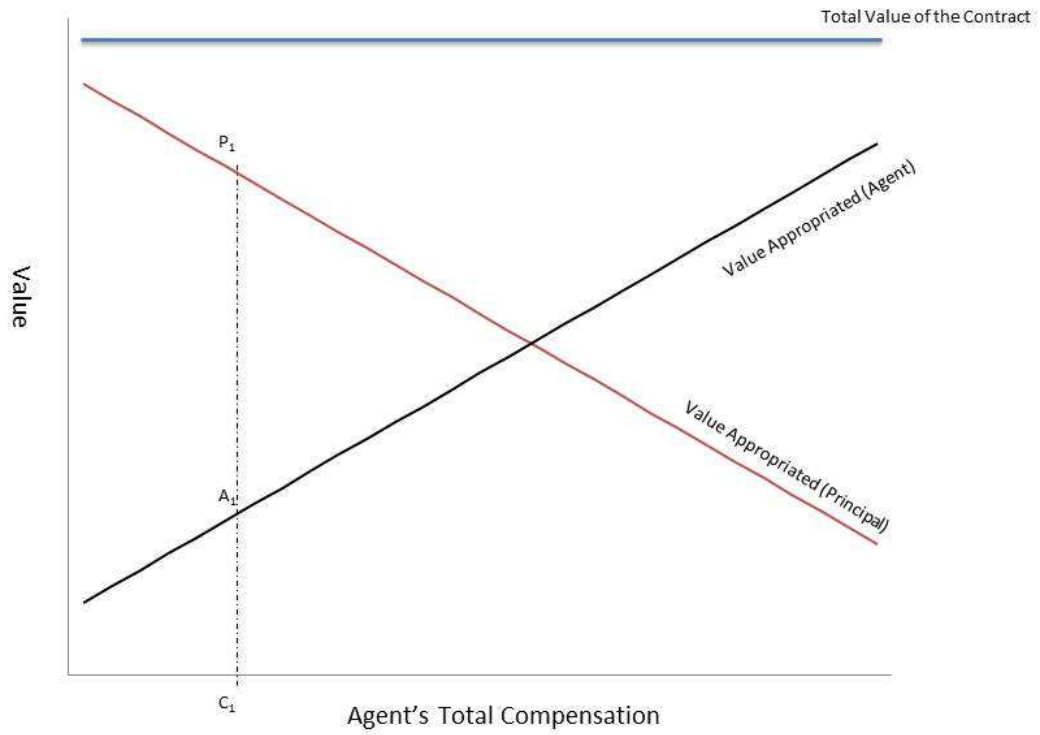
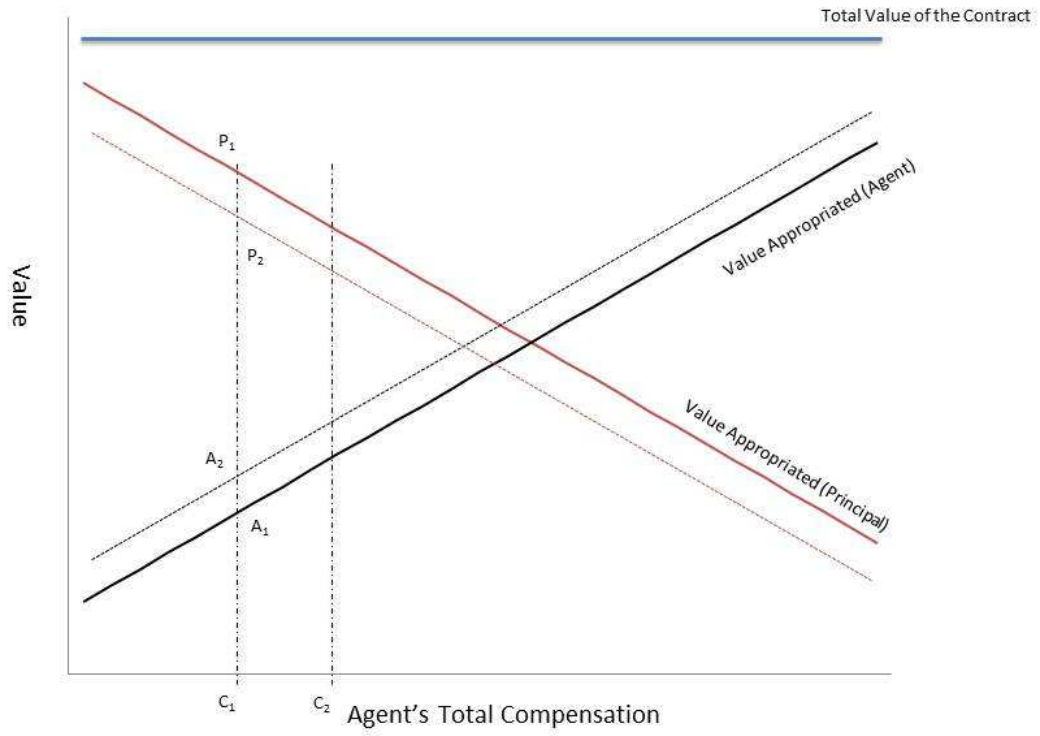


Figure 5. Value Appropriated by the Agent and the Principal in Presence of External Agency



VITA

Oleg Petrenko

Candidate for the Degree of

Doctor of Philosophy

Thesis: EXTERNAL AGENCY: REDEFINITION OF EX ANTE VALUE IN
AGENCY RELATIONSHIPS

Major Field: Business Administration

Education:

Completed the requirements for the Doctor of Philosophy in Business Administration at Oklahoma State University, Stillwater, Oklahoma in May, 2015.

Completed the requirements for the Master of Business Administration at the University of Central Oklahoma, Edmond, Oklahoma in 2009.

Completed the requirements for the Bachelor of Business Administration at the University of Central Oklahoma, Edmond, Oklahoma in 2004.

Professional Memberships:

Academy of Management
Strategic Management Society