

# POST-RESTRUCTURING GOVERNANCE: AN EXAMINATION OF INTERLOCKING DIRECTORATES

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## ABSTRACT

*This study presents an empirical examination of firm restructuring and interlocking directorates (i.e., board interlocks) in the post-asset restructuring period. Portfolio restructuring is an important area of study as it represents a shift in an organization's domain and involves critical decisions that impact firm boundaries and the allocation of resources. Drawing upon agency and institutional theories, we suggest firms experiencing poor performance will restructure and redesign their governance structures, namely the number of board interlocks, in the post-restructuring period so as to enhance organizational legitimacy. Additionally, in response to institutional pressures for improved performance, organizations may choose to co-opt the source of these pressures as a means of averting threats to its stability or existence. The results reveal a positive relationship between divestiture size and the number of board interlocks in the post-restructuring period. The findings address a significant gap in the extant literature by addressing the need for further research examining firms' propensity to implement corporate governance changes following a restructuring.*

## INTRODUCTION

Portfolio restructuring research is critical to better understanding the limits of firm growth, the implications of altering the firm's business portfolio, and the effectiveness of changes in organizational and capital structures (Bowman & Singh, 1993; Johnson, 1996; Kolev, 2016; Schönhaar, Nippa & Pidun, 2014). The value of such activity has significantly increased over time (Brauer & Wiersema, 2012) and remains robust with 12,701 divestitures in 2015 (Deloitte Corporate Finance, 2016). Recent examples include Conagra Foods in 2015, GE in 2016, and Royal Dutch Shell in 2017.

Portfolio restructuring involves the process of divesting and/or acquiring businesses and entails a refocusing on the organization's core business, resulting in a change in the diversity of a firm's portfolio of businesses (Bowman, & Singh, 1993; Bowman, Singh, Useem & Bhadury, 1999). Empirical and theoretical investigations reveals the agency explanation has been *the* predominant perspective in the examination of antecedents of portfolio restructuring. The agency explanation suggests firms restructure in response to less-than-desirable performance and managerial inefficiencies arising from weak governance mechanisms are the primary drivers of poor performance (Abor, Graham & Yawson, 2011; Hoskisson & Hitt, 1994; Johnson, 1996; Johnson, Hoskisson & Hitt, 1993; Schönhaar, et al., 2014). Due to its overwhelming acceptance by researchers, the agency explanation has made portfolio restructuring synonymous with poor governance (Bethel & Liebeskind, 1993; Markides & Singh, 1997; Moschieri & Mair, 2012) even though research has not proven governance is truly deficient in the pre-restructuring period.

A critical facet of the restructuring literature that has received inadequate attention is post-restructuring governance. In calls for future research, Johnson (1996) asked *if governance is*

*ineffective in the pre-restructuring period, then what changes should a firm make post-restructuring?* Almost 20 years later, Schönhaar et al. noted the same gap in the literature and suggest “explicit explanations of post-restructuring governance systems are missing, which is somehow surprising, given the fact that weak governance is the leading explanation for conducting portfolio restructuring” (2014: 192). Governance is the most discussed antecedent of portfolio restructuring, yet it is largely ignored post-restructuring (with the exception of Cashen, 2009; 2011). This despite the agency explanation suggesting poorly performing firms are saddled with the same weak governance mechanisms post-restructuring if corrective actions are not implemented. As such, boards of directors and CEOs are pressured to not only address performance issues but also the governance issues frequently linked with poor performance.

Drawing on the tenets of institutional theory (DiMaggio & Powell, 1983; Meyer & Rowan, 1977), this paper posits firms initiate changes in governance structures (i.e., greater board interlocks) in the post-restructuring period so as to enhance organizational legitimacy (Oliver, 1991). By adopting governance structures that adhere to prescriptions of rationalizing myths in the institutional environment, an organization may demonstrate it is behaving on collectively valued purposes in a proper manner (Crilly, Zollo & Hansen, 2012; Meyer & Rowan, 1977; Westphal & Zajac, 2013). Additionally, conformity to normative pressures increases the flow of societal resources, allows for reduction/management of uncertainty, and enhances the chances of survival (Martin, Gözübüyük & Becerra, 2015; Meyer & Rowan, 1977). These arguments are especially relevant in regards to restructuring initiatives due to the uncertainty and organizational changes surrounding such events.

## **LITERATURE REVIEW**

### **The Institutionalization of the Agency Explanation of Restructuring**

The agency explanation of portfolio restructuring suggests firms engage in such actions in response to suboptimal performance resulting from managerial inefficiencies due to ineffective governance (Hoskisson & Hitt, 1994; Johnson et al., 1993). Research supports the link between poor performance and restructuring (Bowman et al., 1999; Hoskisson & Hitt, 1994; Johnson, 1996; Markides & Singh, 1997) and suggest firms divest assets to improve performance relative to competitors, the overall industry, and/or a predetermined aspiration level. Although never formally defined, *weak* governance is characterized by diffusion of shareholdings among outside owners, board passivity, minimal interlocking directorates, and managerial/board characteristics such as minimal equity ownership or an insider heavy board (Bethel & Liebeskind, 1993; Dalton & Dalton, 2011; Westphal & Fredrickson, 2001).

For decades the agency explanation has been *the* predominant perspective in the restructuring literature (Abor et al., 2011; Markides & Singh, 1997; Schönhaar, et al., 2014). This explanation suggests that performance needs to be improved as a result of past managerial inefficiencies, which arise as a result of agency costs. Due to its overwhelming acceptance and its intuitive appeal, the agency explanation has made portfolio restructuring synonymous with weak governance (Bethel & Liebeskind, 1993; Markides & Singh, 1997; Moschieri & Mair, 2012). Smart and Hitt support this sentiment in stating “many of the arguments and concepts embedded in the agency literature seem so compelling that agency and governance related arguments have become a virtual de facto explanation for many types of corporate restructuring” (1996: 1). As a result, the academic and practitioner restructuring literature has devoted much effort to pointing

out governance failures and highlighting ways of improving the modern corporate governance system (Jensen, 1993; Schönhaar, et al., 2014).

Agency arguments have become so ingrained in governance research that other paradigms are often ignored (Bratton, 2001; Dalton, Hitt, Certo & Dalton, 2007; Davis, 2005; Mizruchi, 2004; Shapiro, 2005). Daily, Dalton and Rajagopalan referred to this barrier as *empirical dogmatism*, which they argued has negatively impacted researchers' willingness to "embrace research that contradicts dominant governance models and theories (e.g., a preference for independent governance structures) or research that is critical of past methodologies or findings" (2003: 379). In essence, agency arguments have become the norm for viewing governance, and, as such, impact the organization of firms (e.g., the structure of the board of directors). The agency arguments are embedded in *how* practitioners, institutional investors, and academicians define sound corporate governance. There is remarkable consensus as to the best practices that need to reside in firms if they are to maximize performance. Support is offered by Zajac and Westphal, who noted "large investors appear to have co-opted normative agency theory to help legitimate their political agenda, thus contributing to and benefiting from the growth of agency theory as a dominant perspective on corporate control" (1995: 287-288).

The governance reforms sought by powerful stakeholders are structures which supposedly minimize agency costs (Brown, 2003; Langley, 2003). Such pressures to reform the governance structure of a firm may not be driven by solid evidence of inappropriate governance since precise causes of poor performance are often difficult to identify (Cyert & March, 1963). However, it is widely suggested that poor performance does stimulate such changes within organizations (Davis, Diekmann & Tinsley, 1994) even when it cannot be attributed unambiguously to problems the proposed changes seek to rectify.

### **The Value of the Board of Directors**

Corporate governance and control in a firm has predominantly focused on the board of directors. Theoretically, the board is the ultimate source of power in an organization (Bazerman & Schoorman, 1983; Perry & Shivadasani, 2005) and is responsible for effective functioning (Blair & Stout, 2001; Jensen, 1993). Additionally, the board has the power to confer authority on the firm (Stiles and Taylor, 2001). Gilson and Kraakman suggest, "in the corporate governance debate, all arguments ultimately converge on the role of the board of directors" (1991: 873). The board of directors is considered central to ensuring management acts in the best interest of shareholders (Finkelstein & Hambrick, 1996), reducing potential agency problems (Pfeffer & Salancik, 1978; Williamson, 1975), and offering strategic and administrative advice (Baysinger & Butler, 1985; Chatterjee & Harrison, 2001; Mintzberg, 1983).

Board members can also serve as a connection to the external environment by providing valuable information that may lead to the acquisition of critical resources, including prestige and legitimacy (Mintzberg, 1983; Pfeffer, 1972; Pfeffer & Salancik, 1978; Selznick, 1949). Proponents of resource dependence theory propose that external board members can act as boundary spanners between the organization and its environment (Dalton, Daily, Johnson & Ellstrand, 1999; Johnson, Daily & Ellstrand, 1996; Pfeffer & Salancik, 1978). For example, directors who are also executives of financial institutions may assist in securing a favorable line of credit, or outside directors who are attorneys may provide pro bono legal advice (Daily et al., 2003). The provision of, and access to, value creating resources can reduce uncertainty associated

with the firm's environment and enhance organizational functioning, performance, and survival (Hillman & Dalziel, 2003; Pfeffer & Salancik, 1978; Thompson, 1967).

Finally, board members have the ability to provide the firm with legitimacy and a positive reputation (Daily & Schwenk, 1996; Hambrick & D'Aveni, 1992; Lynall, Golden & Hillman, 2003). Prestigious directors can also enhance credibility and performance (Certo, 2003; Hillman & Dalziel, 2003). Pfeffer and Salancik note "prestigious or legitimate persons or organizations represented on the focal organization's board provide confirmation to the rest of the world of the value and worth of the organization" (1978: 145). Similarly, Bazerman and Schoorman suggest, "An organization's reputation can be affected by who serves on the board of directors and to whom the organization is seen to be linked" (1983: 211).

Legitimacy bestowed upon a firm through board members can decrease the probability of failure (Baum & Oliver, 1991; DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Legitimacy might result in additional benefits such as suppliers of capital accepting lower risk premiums (Cornell & Shapiro, 1987), less hesitation to invest in the organization (Mizruchi, 1996), and greater stock performance for firms undertaking initial public offerings (Certo, 2003). Given the need to satisfy shareholders, firms adopt specific board structures to signal legitimacy because "organizations that incorporate societally legitimated rationalized elements in their formal structures maximize their legitimacy and increase their resources and survival capabilities" (Meyer & Rowan, 1977: 352). As such, boards have a symbolic role and/or value that is independent of their tangible activities (Certo, 2003).

### **Institutional Theory and Pressures for Governance Changes**

Institutional theory suggests that organizational legitimacy is paramount for firm performance and survival (DiMaggio & Powell, 1983; Scott, 1995; Suchman, 1995). To gain legitimacy, organizations adopt similar organizational forms in response to pressures from, for example, suppliers of capital, consumers, owners, boards of directors, and regulatory agencies (DiMaggio & Powell, 1983; Townley, 2002). Such isomorphism transforms an organization into one resembling others confronted with similar environmental issues (DiMaggio & Powell, 1983). This includes, but is not limited to, organizational characteristics such as structures and practices (Meyer & Rowan, 1977). Isomorphism increases legitimacy, which helps firms acquire resources and lessens the probability of failure (Baum & Oliver, 1991; DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Oliver, 1991; Pfeffer & Salancik, 1978; Suchman, 1995).

Following significant restructuring events, firms will institute changes in their governance structures due to pressures from shareholders and activists (Mizruchi, 1983; Westphal & Fredrickson, 2001). In response to threats on performance, firms opt to restructure their portfolio of assets with the intent of positioning the firm for greater stability, or at least to signal that they are attempting to do so. Additionally, pressures are placed upon boards of directors and executives to address the causes of poor performance--namely, inadequate governance and inefficient governance structures.

Given the need to positively influence sources of power, firms may adopt structures to signal legitimacy. The anticipated result is an improved perception of the organization's image and renewed confidence in its future (Daily & Dalton, 1995; Schwartz & Menon, 1985). Conceptual research indicates that such organizational structures include characteristics of boards of directors and top managers (Certo, 2003; Mizruchi, 1996; Pfeffer & Salancik, 1978; Westphal & Zajac, 1994; 1998). Changes become part of the organization's rationalized formal structure

(e.g., board of directors), whose elements reflect rules that are socially constructed, deeply ingrained, and/or enforced by the views of important constituents (Berger & Luckmann, 1967; Meyer & Rowan, 1977). In other words, rather than incorporate elements in terms of efficient coordination and control of productive activities, firms incorporate elements that are legitimated externally and thus, demonstrate the organization is acting on collectively valued purposes in a proper and adequate manner (Meyer & Rowan, 1977; Tolbert & Zucker, 1996).

As previously noted, significant pressures are exerted by stakeholders upon boards of directors to effectively respond in times of organizational crisis (e.g., period of declining performance). Additionally, top managers face similar pressures by boards of directors. It is critical that top managers and boards manage these multiple constituencies in order to preserve their positions. A failure to keep shareholders satisfied may result in removal from the board and a negative impact to the board members' reputations. Additionally, corporate boards not active in pursuit of performance improvements might be regarded as negligent in their protection of stockholder interests (Westphal & Zajac, 1994). As such, in times of substandard performance, it is critical that firms conform to these pressures due to their dependence on these sources for stability, legitimacy, and the appearance of rationality (Oliver, 1991; Pfeffer & Salancik, 1978; Suchman, 1995). Such arguments have direct implications for firms engaged in portfolio restructuring (Schönhaar et al., 2014) since these situations are often viewed as instances where shareholder (and other stakeholder) interests have been neglected (Westphal & Zajac, 1994). As a result, it can be implied pressures for, and adoptions of, governance reforms are driven by firm performance being used as a research proxy for a board's governing effectiveness (Kosnik, 1987; Mallette & Fowler, 1992).

## **THEORY AND HYPOTHESES**

An organization may choose to co-opt sources of institutional pressure (Oliver, 1991; Pfeffer & Salancik, 1978; Thompson, 1967; Scott, 1995). Selznick defined co-opting as "the process of absorbing new elements into the leadership or policy-determining structure of an organization as a means of averting threats to its stability or existence" (1949:13). One way firms seek to do accomplish this is via board interlocks (i.e., interlocking directorates), which is when a person affiliated with one organization sits on the board of directors of another organization (Martin et al., 2015; Mizruchi, 1996). Research suggests poorly performing firms are more likely to interlock (Lamb & Roundy, 2016; Lang & Lockhart, 1990; Mizruchi & Stearns, 1988; Stearns & Mizruchi, 1993). For example, Richardson (1987) found bankers often join a board when the firm is underperforming. Such results imply interlocks may serve as means of monitoring the activities of the firm and thus a source of corporate control (Mizruchi, 1996). Whether interlocks are viewed as a means of corporate control or co-optation, they serve to provide additional resources to, or more favorable terms for, the organization (Hillman & Dalziel, 2003; Lamb & Roundy, 2016; Pfeffer & Salancik, 1978; Zald, 1969). Pfeffer (1972) demonstrated organizations with directorate ties to external sectors that posed the most critical constraints outperformed industry counterparts lacking such ties.

In addition, board linkages can also provide the firm with legitimacy (DiMaggio & Powell, 1983; Selznick, 1949). Interlocks are a means of signaling to the environment that the board possesses knowledge, experience, and the ability to manage inter-organizational dependencies (Fama & Jensen, 1983). By appointing individuals with ties to other important organizations, the firm signals to potential investors that it is a legitimate enterprise worthy of support" (Mizruchi,

1996). Bazerman and Schoorman stated, “An organization’s reputation can be affected by who serves on the board of directors and to whom the organization is seen to be linked” (1983: 211).

While there still may exist some ambiguity regarding the outcomes of restructuring, as a whole, empirical research supports a relationship between restructuring and the number of board interlocks. As such, the following hypothesis is offered.

*Hypothesis 1: Firm restructuring is positively associated with the number of board interlocks in the post-restructuring period.*

Additionally, it is argued these linkage initiatives may become more pronounced as the size of the divestiture increases. Portfolio-restructuring events can be significant enough to surround the organization with ambiguity due to considerable changes to the firm’s routines and organizational domain. These changes represent critical decisions impacting not only the boundaries of the organization, but also the allocation of resources within (Goodstein & Boeker, 1991). It is reasonable to assume as the overall size of the divestiture increases the magnitude of the organizational and structural changes generate stress for those individuals involved/impacted by the restructuring (Moschieri & Mair, 2012). As such, larger divestitures may signal “greater” corrective action is needed to the firm’s portfolio of assets, and subsequently “greater” corrective action needed to the firm’s governance structure. It is also reasonable to suggest that larger divestitures are more public and discussed more often in the popular press than smaller divestitures. These larger divestitures then might open the firm up to more criticism and allegations of sub-optimal governance structures in the pre-restructuring period. As such, the following hypothesis is offered.

*Hypothesis 2: Divestiture size is positively related to the number of board interlocks in the post-restructuring period*

## RESEARCH DESIGN

### Sample Methodology

The sample of firms was drawn from the *SDC Platinum Database* published by Thomson Financial derived from SEC filings. The search was restricted to U.S. firms that had \$1 billion or more in annual revenues. A firm identified as restructured must have divested at least 10% of its assets, which represents significant strategic change by an organization. This criterion has been used in previous restructuring research and is accepted as a valid indicator of restructuring activity (e.g., Hoskisson & Johnson, 1992; Johnson et al., 1993; Markides, 1992).

A sample of 100 randomly selected restructuring firms were included in the analysis. Each restructuring event was compared against SEC filings for each firm to confirm the 10% criteria. Specifically, the asset data was located in the firm’s *notes to the consolidated financial statements* contained within the annual report to shareholders. The average firm in the sample divested 19.84% of its assets at an average value of \$1.63 billion. The minimum and maximum percentages (and dollar amounts) divested were 10% (\$508 million) and 46.7% (\$4.57 billion), respectively.

The restructuring sample needed to be matched with a non-restructuring firm sample to allow for greater confidence in any proposed relationships as it increases the external validity of our conclusions and inferences (Cook and Campbell, 1979). A random sample of non-restructuring firms was selected also from the *SDC Platinum*. The same criteria were used – U.S. firms with \$1

billion or more in annual revenues. A firm qualifies as non-restructuring if it had not engaged in any restructuring activity within a six-year period (i.e., three years before and three years after). A total of 110 non-restructuring firms were selected, however, one firm was acquired in the following year, thus reducing the non-restructuring sample to 109 firms. The non-restructuring sample was not statistically different from the restructuring sample based on assets, revenues, and capital structures. Adding the 100 restructuring firms to the 109 non-restructuring firms for a total sample size of 209 firms.

## Operationalization of Variables

**Dependent variable.** The dependent variable is the *number of board interlocks*. This variable was measured as the sum of the number of board seats to external companies held by each director. Data was drawn from SEC filings (annual reports and proxy statements). The dependent variable was measured one year ( $t_1$ ) and two years ( $t_2$ ) following the restructuring. It is not appropriate to measure governance and restructuring cross-sectionally for two reasons. First, this paper is predicting that portfolio restructuring will lead to subsequent changes in governance. Second, the nature of governance mechanisms, (e.g., 3 year director assignments) limit the firm's ability to immediately institute governance changes (Westphal & Zajac, 1998).

**Independent variables.** For hypothesis 1, *restructuring* was measured as a dichotomous variable. This was done since the assessment is to determine if differences exist between restructuring and non-restructuring firms in the post-restructuring period. As such, restructuring firms were coded as 1, and non-restructuring firms were coded as 0. For hypothesis 2, *divestiture size* is measured as the dollar value of the divested assets as reported in the firm's Annual Report to Shareholders.

**Control variables.** The substitution effect of governance suggests that the desired level of one governance mechanism is contingent on the magnitude of other mechanisms. As a result, we control for the *proportion of outsiders on the board*. Other control variables include *CEO and board equity ownerships* (both measured as the number of shares held as a percentage of total shares outstanding) and *CEO duality* (measured as 1 if the CEO is the chairperson; 0 if not). A number of studies have hypothesized a link between CEO tenure and CEO influence over the board (Finkelstein & Hambrick, 1996). As tenure increases, CEOs may acquire personal power by populating boards with supporters (Finkelstein & Hambrick, 1996) while gaining expert power through an increased familiarity with the firm's resources (Young, Stedham & Beekun, 2000; Zald, 1969). *CEO tenure* as a control variable was measured in months. Lastly, we control for *ownership concentration* because concentrated ownership increases the ability/incentive to monitor investments and institute changes in the organization (Bethel & Liebeskind, 1993; Ryan & Schneider, 2002). Ownership concentration was measured as the number of common shares outstanding divided by the total number of shareholders.

## Statistical Techniques

Ordinary least squares (OLS) regression was used when testing the hypotheses. The control variables were entered in stage one and the main effect was entered in the second stage. In addition to being simple and straightforward in its interpretation of coefficients, OLS is able to accommodate both continuous and binary independent variables.

## RESULTS

Table 1 presents the means, standard deviations, and correlations.

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Board ties t <sub>1</sub>	41.24	24.83	-														
2. Board ties t <sub>2</sub>	41.62	24.77	.96**	-													
3. CEO equity t <sub>1</sub>	1.95	5.80	-.01	.02	-												
4. CEO equity t <sub>2</sub>	1.67	4.26	.04	.05	.88**	-											
5. Board equity t <sub>1</sub>	6.82	38.90	.06	.10	.10	.07	-										
6. Board equity t <sub>2</sub>	5.26	24.28	.01	.08	.36**	.33**	.41**	-									
7. CEO duality t <sub>1</sub>	.88	.33	.19**	.17*	-.26**	-.08	.02	.02	-								
8. CEO duality t <sub>2</sub>	.87	.34	.16*	.12	-.26**	-.11	.03	.03	.75**	-							
9. Outside proportion t <sub>1</sub>	.76	.12	.24**	.23**	-.11	-.07	-.02	-.12	.27**	.21**	-						
10. Outside proportion t <sub>2</sub>	.77	.12	.21**	.20**	-.07	-.09	.04	-.13	.26**	.23**	.84**	-					
11. CEO tenure t <sub>1</sub>	84.91	81.07	-.16*	-.18**	-.03	.02	.01	.09	.21**	.17*	-.16*	-.24**	-				
12. CEO tenure t <sub>2</sub>	97.21	163.37	-.14*	-.14*	-.02	.01	.01	.05	.11	.13	-.21**	-.25**	.56**	-			
13. Divestiture size	1.98	3.37	.10	.11	-.02	-.07	.57**	.50**	.04	.02	-.06	.05	-.12	-.10	-		
14. Ownership concentration t <sub>1</sub>	12.1	23.91	-.18*	-.15*	.31**	.17*	.06	.06	-.11	-.09	-.24**	-.11	.01	.02	-.03	-	
15. Ownership concentration t <sub>2</sub>	12.7	24.68	-.17*	-.14*	.33**	.21**	.07	.06	-.09	-.06	-.24**	-.13	.06	.03	-.03	.95**	-

N = 209. \*\* p < .01; \* p < .05. Means and standard deviations for variables 3 – 6 are in millions.

### Restructuring (Hypothesis 1)

Tables 2 and 3 provide regression results examining the number of board interlocks in the post-restructuring period when assessing the impact of restructuring (i.e., hypothesis 1). Specifically, Table 2 presents the number of board interlocks in the first year following a restructuring (t<sub>1</sub>) and Table 3 the number of board interlocks in the second year following a restructuring (t<sub>2</sub>). Testing the control variables in models 1 in Tables 2 and 3 reveal significant negative relationships between both ownership concentration and CEO tenure and the number of interlocks in the post-restructuring period. Additionally, both models 1 reveal a significant positive relationship between CEO duality and the number of interlocks in the post-restructuring period. Lastly, the proportion of outsiders on the board is positively related to board interlocks in the post-restructuring period, but only for year t<sub>1</sub>. When the independent variable was added in Model 2 for years t<sub>1</sub> and t<sub>2</sub>, the aforementioned relationships between the control variables and board interlocks remain unchanged. In addition, models 2 of Tables 2 and 3 reveal the independent variable, *restructuring* (i.e., a restructuring event), is not significantly related to the number of board interlocks in years t<sub>1</sub> and t<sub>2</sub>, thus not supporting hypothesis 1.



**Table 2**  
**RESULTS OF REGRESSION ANALYSIS PREDICTING BOARD OF DIRECTOR TIES IN YEAR  $t_1$**

Variables	Dependent Variable: Board Ties ( $t_1$ )			
	Model 1		Model 2	
	B	t	B	t
Ownership Concentration $t_1$	-0.147	-1.904 <sup>†</sup>	-0.142	-1.823 <sup>†</sup>
Board Equity $t_1$	-0.036	-0.503	-0.034	-0.474
CEO Equity $t_1$	0.099	1.304	0.105	1.356
CEO Duality $t_1$	0.179	2.303*	0.185	2.345*
CEO Tenure $t_1$	-0.164	-2.227*	-0.168	-2.249*
Outsider Proportion $t_1$	0.146	1.824 <sup>†</sup>	0.162	1.951 <sup>†</sup>
Restructuring Event			-0.021	-0.268
Firm Performance			0.064	0.905
R <sup>2</sup>		.124		.128
Adjusted R <sup>2</sup>		-.090		.085
Change in R <sup>2</sup>				.004
Significance of R <sup>2</sup> Change				.636

<sup>†</sup> p < .10, \* p < .05, \*\* p < .01

**Table 3**  
**RESULTS OF REGRESSION ANALYSIS PREDICTING BOARD OF DIRECTOR TIES IN YEAR  $t_2$**

Variables	Dependent Variable: Board Ties ( $t_2$ )			
	Model 1		Model 2	
	B	t	B	t
Ownership Concentration $t_2$	-0.148	-1.980*	-0.144	-1.902 <sup>†</sup>
Board Equity $t_2$	0.039	0.514	0.041	0.528
CEO Equity $t_2$	0.099	1.271	0.098	1.220
CEO Duality $t_2$	0.130	1.723 <sup>†</sup>	0.128	1.685 <sup>†</sup>
CEO Tenure $t_2$	-0.126	-1.670 <sup>†</sup>	-0.127	-1.672 <sup>†</sup>
Outsider Proportion $t_2$	0.124	1.478	0.141	1.610
Restructuring Event			-0.024	-0.306
Firm Performance			0.047	0.628
R <sup>2</sup>		.093		.095
Adjusted R <sup>2</sup>		.058		.050
Change in R <sup>2</sup>				.003
Significance of R <sup>2</sup> Change				.780

<sup>†</sup> p < .10, \* p < .05, \*\* p < .01

## Divestiture Size (Hypothesis 2)

Tables 4 and 5 provide regression analyses results examining the number of board interlocks in the post-restructuring period when assessing the impact of *divestiture size* (i.e., hypothesis 2). Specifically, Table 4 assesses the number of board interlocks in the first year following restructuring ( $t_1$ ) and Table 5 the number of board interlocks in the second year

following a restructuring ( $t_2$ ). Both Models 1 in Tables 4 and 5 reveal no significant relationships between the control variables and the number of board interlocks in the post restructuring period with the exception of the positive relationship with CEO equity ownership and board interlocks in year  $t_2$ . When the independent variable was added in model 2 for years  $t_1$  and  $t_2$ , the control variables of board equity ownership and CEO equity ownership were significant. Specifically, board equity ownership is negatively related and CEO equity ownership is positively related to the number of board interlocks in the post-restructuring periods, respectively. In addition, models 2 of Tables 4 and 5 reveal the independent variable, *divestiture size*, is positively related to the number of board interlocks in years  $t_1$  and  $t_2$  ( $p < .01$  for both years), which suggests larger, more visible divestitures result in greater amounts of board interlocks in the post-restructuring period, thus supporting hypothesis 2. Models 2 for the number of board interlocks in years  $t_1$  and  $t_2$  were both significant ( $R^2 = .198$ ,  $p = .004$ , and  $R^2 = .146$ ,  $p = .038$ , respectively).

**Table 4**  
**RESULTS OF REGRESSION ANALYSIS PREDICTING BOARD OF DIRECTOR TIES IN YEAR  $t_1$**

Variables	Dependent Variable: Board Ties ( $t_1$ )			
	Model 1		Model 2	
	B	t	B	t
Ownership Concentration $t_1$	-0.174	-1.294	-0.114	-0.889
Board Equity $t_1$	-0.044	-0.393	-0.691	-3.016**
CEO Equity $t_1$	0.175	1.296	0.280	2.140*
CEO Duality $t_1$	0.160	1.240	0.189	1.548
CEO Tenure $t_1$	-0.009	-0.074	0.056	0.508
Outsider Proportion $t_1$	0.089	0.685	0.162	1.262
Divestiture Size			0.743	3.22**
Firm Performance			0.154	1.417
$R^2$		.073		.198
Adjusted $R^2$		-.010		.103
Change in $R^2$				.125
Significance of $R^2$ Change				.004

\*  $p < .05$ , \*\*  $p < .01$

### Additional Analyses

In order to strengthen confidence in these findings additional analyses were performed. The theoretical development in this paper suggests substandard performance may lead to changes in governance structures and such changes may occur irrespective of a restructuring event. This assertion was empirically tested and the results are contained in Tables 2-5. Specifically, firm performance (using a commonly accepted measure: *change in ROA in the pre-restructuring period*) was assessed for both hypotheses. Model 2 in each of the tables demonstrates firm performance was not significant in its impact on the number of board interlocks in the post-restructuring period.

Additionally, it is not unreasonable to assume the changes in governance structures might be greater for those firms having restructured their portfolios of assets. This implies there might be an interaction effect between restructuring events/size and firm performance. These relationships were tested using moderated multiple regression. Although not reported, the analysis

revealed no significant effects regarding the interaction between firm performance and restructuring events (or restructuring size) and their impact on board interlocks.

**Table 5**  
**RESULTS OF REGRESSION ANALYSIS PREDICTING BOARD OF DIRECTOR TIES IN YEAR  $t_2$**

Variables	Dependent Variable: Board Ties ( $t_2$ )			
	Model 1		Model 2	
	B	t	B	t
Ownership Concentration $t_2$	-0.151	-1.187	-0.001	-0.010
Board Equity $t_2$	-0.031	-0.247	-0.507	-2.216**
CEO Equity $t_2$	0.224	1.745 <sup>†</sup>	0.393	2.685**
CEO Duality $t_2$	0.138	1.109	0.168	1.362
CEO Tenure $t_2$	-0.042	-0.360	-0.020	-0.177
Outsider Proportion $t_2$	0.045	0.367	0.094	0.733
Divestiture Size			0.508	2.476**
Firm Performance			0.090	0.751
R <sup>2</sup>		.065		.146
Adjusted R <sup>2</sup>		-.022		.040
Change in R <sup>2</sup>				.080
Significance of R <sup>2</sup> Change				.038

<sup>†</sup>  $p < .10$ , \*  $p < .05$ , \*\*  $p < .01$

## DISCUSSION AND CONCLUSION

Overall, the results generally support the hypothesis that restructuring firms institute governance changes in the post-restructuring period. As hypothesized, divestiture size did have a direct and positive relationship with the number of board interlocks in the post-restructuring period. This finding reinforces the belief that restructuring events are viewed as significant shocks to the organization and surround it with uncertainty and ambiguity and require corrective action. By attracting powerful board members (i.e., those with greater ties to external organizations), the firm has the potential to reduce and/or better manage uncertainty in its environment and is more likely to enhance its ability to attract scarce resources, convey legitimacy, and better align managers, directors, and shareholders. These findings support, at least implicitly, arguments set forth by Mizruchi who stated “by appointing individuals with ties to other important organizations, the firm signals to potential investors that it is a legitimate enterprise worthy of support” (1996: 276).

The present research makes several contributions to the extant literature. First, empirically testing the restructuring to interlock relationship addresses the need for additional research examining post-restructuring governance systems (Schönhaar et al., 2014). This is important to both practitioners and researchers because it demonstrates how organizational control and its relationship to managing the firm’s portfolio of assets are bounded by years of institutionalized beliefs. As for managerial implications, this research contributes to the discussion concerning how governance structures can signal stability to investors, help allay concerns over managerial loyalties, and potentially elicit a positive response from the markets. Second, this paper breaks free from the ingrained agency arguments by employing institutional arguments to suggest

restructuring and governance literatures may benefit from alternative theoretical lenses when examining these relationships. Third, this research employs a finer grained operationalization of restructuring by not solely investigating restructuring as a dichotomous variable. Assessing divestiture size reveals greater insight into the post-restructuring board interlock discussion.

### **Limitations and Future Research**

The current paper focuses solely on relatively large, publicly held, U. S. based firms. As a result, caution should be used in generalizing the results. While there has been an increase in studies examining corporate governance in various contexts, additional research can provide improved insight as to the overall nature of corporate governance in firms. For example, foreign firms operate under different regulatory and governance standards. In addition, smaller firms, both public and private, may face, and react to, pressures to conform and establish interlocks different than larger, publicly held U.S. firms. Cornforth (2012), states that research supports the premise that board size, structure, and tasks faced vary with organizational size. Dalton, et. al.'s (2007) proposition that corporate governance research is overly focused on larger U.S. firms, remains, to a large extent, true today.

So as to better address the issue of *empirical dogmatism*, and further embrace research outside the parameters of dominant governance models, future studies should examine additional antecedents beyond those posited by the agency explanation. For example, the role of economic conditions as a driver of the decision to divest is an area where research can provide additional insight into the restructuring-performance relationship. According to Amiri, Kin, and DeMarie (2017), divestiture behaviors vary with changing economic conditions, but the direction and/or significance of such potential drivers is ambiguous. They note research examining the relationship between environmental uncertainty and the breadth of corporate operations reports positive (e.g., Jones & Hill, 1988), negative (e.g., Belderbos & Zou, 2009), and insignificant associations (Duhaime & Grant, 1984). Further research will allow for the refinement of theories and models examining antecedents to the restructuring decision. Doing so will assist in overcoming the *empirical dogmatism* (Daily, et. al., 2003) associated with the agency explanation of governance models.

Another limitation both in this study, and much of the extant research in the field, is the simplistic design. This considering the inevitable impact of external forces the association between divestitures and outcomes. Assuredly, this relationship is more complex than has, at this time, been adequately captured. While some advances in contingency frameworks can be found (e.g., Stone, et al., 2010), overall, insufficient attention has been directed towards developing and testing contingency models (Cornforth, 2012). Future research that takes into account the complexity of the restructuring-outcomes relationship and its moderators, both internal and external, should move the field closer to a general theory of corporate governance.

Portfolio restructuring was the only type of restructuring event investigated in this paper. However, there are other types of restructurings firms might implement. *Financial restructuring*, involves significant changes in the capital structure of a firm, and *organizational restructuring*, which involve significant changes in organizational structures, are other strategies that might be implemented. Future research could examine various types of restructurings and assess their individual impacts on governance in the post-restructuring period. It is not unreasonable to assume a weaker link between financial/organizational restructurings and governance related arguments

since firms often undertake these types of restructurings as part of an M&A strategy in order to meet the rapidly growing demand during an economic expansion.

Restructuring studies tend to examine either programs of divestitures or single divestitures. Examining the latter allows for focusing on one event, thus allowing the examination of variables prior and post restructuring. Research has demonstrated that for such restructurings, the divested units and the parent firm tend to be poor performers versus matched control firms. Unlike firms in single divestiture studies, firms engaging in programs of divestiture may restructure not necessarily due to substandard business unit performance (Johnson, 1996). A company that undertakes a program of divestitures might instead do so as a result of lower than expected growth in the unit or as a result of a failed new market development strategy. Based on these issues, the link between substandard performance and restructuring activities might not be as strong for chronic restructuring firms as it would be for firms engaging in a single divestiture so as to rectify poor performance. As such, one might imply that linkages between governance deficiencies, firm performance, and restructuring would not be as strong for these firms as they are for single divestiture firms. This is an empirical question that could be addressed in future research in examining the boundaries of the governance-performance-restructuring paradigm.

Finally, even when governance structures are modified, uncertainty remains as to *how* these changes came about. Do organizations make changes due to pressure from powerful actors or as a proactive measure so as to appease actors in the external environment (Oliver, 1991)? These changes might constitute a compromise between the organization and multiple constituent demands (Oliver, 1991), since powerful actors might have the different agendas (Hoskisson et al., 2002). Future research might address these issues in order to attain a greater understanding of governance in the post-restructuring period.

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