

Research examines impact of prestige on corporate board dynamics

October 22 2013

(Phys.org) —Adding prestige in the boardroom can come at a cost according to new research from authors at the Penn State Smeal College of Business.

Though prestigious [directors](#) are often seen as indicative of a firm's quality, Farrell Professor of Entrepreneurship Tim Pollock and recent doctoral graduate Abhijith Acharya found that adding more prestigious directors wasn't always desirable. The costs associated—particularly with regard to established work routines and existing status hierarchies—eventually begin to outweigh the benefits.

"Maintaining effective group processes can be particularly challenging for boards," the researchers wrote. "Prestigious directors are more likely than nonprestigious directors to assert themselves in ways that disrupt the current within-group status order and threaten others' power and discretion."

"Prestigious directors are more likely than nonprestigious directors to assert themselves in ways that disrupt the current within-group status order and threaten others' power and discretion."

Using data from more than 200 firms on the five years following their IPOs—when boards are typically most influential—the researchers identified several group-dynamic trends within corporate boards.

First, the researchers found that the more prestigious the existing

directors, the more likely they would be to recruit additional prestigious directors because of their natural desire to associate with others like them. Over time, though, the effects of adding additional prestige were shown to diminish, partly because of the impact on group dynamics.

"The addition of a prestigious director has greater potential to be disruptive because it is more likely to affect the current social order," wrote Pollock and Acharya.

But the researchers also found that boards that have worked together for a long time and have a solidly established working relationship are less likely to perceive a new director as a threat to that social order.

"Serving together for longer periods of time could create clarity and stability in the local social order that decreases the perceived threat of adding a prestigious new director," they wrote.

Finally, the study found that a high-status CEO's desire to recruit additional prestigious directors depended largely on the leader's structural power within the firm. Though perhaps apprehensive about how the addition of a new prestigious director may affect his or her own "relative standing in the board's status ordering," those with greater structural and ownership power will be less likely to see the addition as a threat.

"Our analyses ... showed that Founder-CEOs and CEOs with fewer outsiders on the board were more likely to recruit more prestigious directors, while CEOs that own larger percentages of stock were likely to recruit less prestigious directors," the researchers write.

The article "Shoot for the Stars? Predicting the Recruitment of Prestigious Directors at Newly Public Firms," forthcoming in the *Academy of Management Journal*, was authored by Penn State Smeal

College of Business' Tim Pollock, Farrell Professor of Entrepreneurship, and former doctoral student in Management and Organization Abhijith Acharya, now an assistant professor at Singapore Management University.

Provided by Pennsylvania State University

Citation: Research examines impact of prestige on corporate board dynamics (2013, October 22) retrieved 24 May 2024 from <https://phys.org/news/2013-10-impact-prestige-corporate-board-dynamics.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.