Universitat de València
Facultat d'Economia
Departament de Direcció d'Empreses "Juan José Renau Piqueras"

STRATEGIC RESPONSES OF MEDIUM SIZED FIRMS: THE ROLE OF TMT's PERCEPTIONS AND CHARACTERISTICS IN DECISION MAKING PROCESSES

DOCTORAL DISSERTATION

Doctorado en Dirección de Empresas

PRESENTED BY:

Jorge Villagrasa Guarch

SUPERVISED BY:

Prof. Dr. Alejandro Escribá Esteve

May 2017

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VNIVERSITAT DE VALÈNCIA

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A mi familia y amigos, por su apoyo y magia infinita,
por ayudarme a alcanzar mis sueños

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CHAPTER 1:
Introduction

1.1. OBJECTIVE AND SUMMARY OF THE DISSERTATION

Many decisions made by the organization's top management team (hereafter called indifferently TMT or top management team) have a high likelihood of failure (Nutt, 1999). This situation might be shocking but indeed, it is much more common than one might think (Bloom et al., 2012). In fact, we can easily realize this reality when reading the current business press where we will probably be confronted with several cases of failures that have been caused by any type of TMT decisions. Of course, we will also see cases of success, exemplifying managers and recipes of good practices (e.g., Eide et al., 2016; Schrage, 2013); but these will be minor. Thus, as Bloom et al. (2012) state, the group of badly managed firms will be much bigger than those that are well-managed.

Overall, these worrying facts emphasize the importance to study the top management teams and, in this way, to unravel the complex existing interplay between their characteristics, decision-making processes and contingency factors which will undoubtedly influence the behavior adopted by organizations (Hambrick & Mason, 1984). Research on TMTs started to flourish after the publication of the seminal work by Hambrick and Mason (1984). In particular, this paper proposed the *upper-echelons* theory which basically highlighted the importance to analyze organizations' key decision makers when explaining the outcomes, strategic decisions and behavior adopted by a firm (Bantel & Jackson, 1989; Buyl et al., 2014; Hambrick & Mason, 1984). In other words, in order to understand why organizations did the things they did or behaved in one way or another Hambrick and Mason (1984) suggested that we had to study the characteristics, experiences and cognitive values of these actors (Hambrick & Mason, 1984). This assumption inspired many scholars to empirically investigate the impact of such features on a myriad of outcome variables such as turnover, innovation, diversification, and organizational performance (Boone et al., 2005).

However, the extant *upper-echelons* research has typically focused on managers' observable characteristics (such as demographics or functional experiences) and has rarely considered managerial attitudes and perceptions explicitly – even though the latter are actually assumed to act as perceptual filters of reality, used in decision-making (Cho & Hambrick, 2006; Hambrick, 1994; Lawrence, 1997). This argument is supported by Ocasio's (1997) research where it is advocated that managers' decisions

depend to a high degree on how they perceive the reality and how much they feel the necessity to react. Thus, scholars seem to agree in determining that the incorporation of insights from a cognitive approach could generate a better understanding of managerial strategic decisions (Greve, 2003).

In a related vein, performance feedback literature also bases its ideas on this concept. More specifically, this stream of research, heavily influenced by the *Behavioral Theory of the Firm* (BTF; Cyert & March, 1963), studies the effects of (managerial) performance feedback on organizational behavior. Thus, based on several assumptions of the Carnegie School such as bounded rationality, backward-looking orientation and rule-based adaptation (Cyert & March, 1963; Gavetti et al., 2012; March & Simon, 1958; Shinkle, 2012), the most prominent proposition in this body of literature contemplates that an organization's decision makers (its managers) will (only) pursue strategic changes when performance falls below preset aspiration levels (e.g., Greve, 2003; 2008). The underlying idea is that such 'attainment discrepancy' leads to dissatisfaction, which subsequently drives managers' intention to adapt the organization's current strategies in an effort to fix this problem (also called *'problemistic search'*; Shinkle, 2012).

However, despite the dominance of the BTF-influenced thinking, scholars have also developed contradictory theoretical perspectives, and found mixed evidence (Bowen et al., 2010). For instance, Jordan and Audia (2012) theorized that a failure to meet preset aspiration levels might not lead to a higher intention to change, if managers choose to assess their performance as satisfactory in a search to enhance their self-image. Similarly, Labianca et al. (2009) proposed and found that strong performers sometimes have higher intentions to change, if they actively strive for even higher performance (aspirations) levels in the future. Supporting these authors, Haleblian and Rajagopalan (2005) suggest that it will not be appropriate to apply the same standard to determine aspirations for all organizations, as aspirations can themselves fluctuate across managers in varying organizations. Consequently, these equivocalities emphasize the need for studies that scrutinize 'attainment discrepancy' and its impact on subsequent organizational behavior in more detail (Jordan & Audia, 2012).

In this dissertation, we take up the challenge and taking into account that performance feedback theory is essentially a cognitive theory (Labianca et al., 2009; Shinkle, 2012), we contribute to this issue by digging deeper into the *micro-processes and*

mechanisms that underlie the translation of 'attainment discrepancies' into subsequent actions. More particularly, we highlight that scholars have almost invariably operationalized 'attainment discrepancy' as the gap between an organization's realized performance on the one hand and historical and/or peers' performance levels on the other hand (for a review, see Shinkle, 2012). Thus, the implicit assumption which remains here is that aspiration levels (and 'attainment discrepancies') are (only) based on objective and visible results – either of the organization itself or of its peers – and, by extension, that managers' motives to undertake changes are only – or most crucially – driven by such objective results. However, both practice and academic work (e.g., Fiegenbaum et al., 1996; Labianca et al., 2009) have made clear that many other factors also drive managers' aspiration levels, and, hence, their perceptions of 'attainment discrepancy'. To address this issue, in this work we propose to focus on alternative indicators of 'attainment discrepancy', more closely connected to managers' perceptions of and feelings about the realized results. Specifically, we propose two options:

(1) The use of the *managerial complacency* with firm's results, a variable that according to several authors might be understood as a kind of conformism or feeling of quiet pleasure or security, while unaware of some potential danger or threat (e.g., see Pascal, 2011). However, as stated by Kawall (2006) the latter may seem problematic insofar as it could cause some confusion among scholars when linking appropriate or justified feelings of satisfaction as instances of complacency. Conversely, complacency requires that one be confused with its level of achievement, leading to an excessive level of satisfaction (Kawall, 2006). Miller and Chen (1996) support this proposition by indicating that the range of actions and the search knowledge of competitive alternatives adopted by a firm are influenced (and restricted) in part by the complacency of firm's decision makers. Similarly, Sánchez-Peinado et al. (2010, p. 75) establish that "the intentionality of strategic change is closely related (among other factors) to how managers perceive and interpret the environmental changes" and to their "level of complacency with the firms' performance", which would specifically reduce this will.

According to this stream of reasoning, in this research managerial complacency is measured as the difference between the traditional (objective) measurement of 'attainment discrepancies' carried out by the BTF-inspired literature and the CEO's satisfaction with these results. That is to say, in order to consider that a manager holds a complacent behavior he/she should exhibit high levels of satisfaction despite objectively the results obtained do not reflect the same threshold. Consequently, we argue that behavioral change in situations of bad results will not be direct, but will depend on the level of complacency that the managers (and the CEO as their representative) face with that situation (Gordon et al., 2000). In fact, following Gordon et al.'s (2000) research we argue that the objective results will be (just) an indicator of the degree of adjustment between the business strategy and the conditions imposed by the environment and will only serve as a warning system for stakeholders (including managers) on the validity of the current strategy. However, as long as those responsible for driving change are not dissatisfied with the results achieved by the company (meaning a little complacent evaluations), there may not be enough incentive to act (Sánchez-Peinado et al., 2010). That is to say, following BTF's precepts we expect that the lower the CEO's complacency, the more the CEO will be inclined to change its strategic behavior.

(2) The use of *CEOs' satisfaction with performance* as a direct indication of 'attainment discrepancy'. Hence, with this proposal we individually consider *CEO's satisfaction with performance* as a measure of 'attainment discrepancy' (Haleblian & Rajagopalan, 2005) instead of using a combination of it with the relative objective performance obtained by the firm.

In particular, we do so by digging on the significance and content of this cognitive variable which, according to several scholars, can be seen as an 'a posteriori variable' that adds perceptual information to the interpretation of performance feedback that is not captured by the objective results of the organization itself or its peers (cf., Matho & Khanin, 2015). In this line, Carree and Verheul (2011) indicate that besides objective results, a range of other factors, such as individual goals, expectations, demographic attributes, previous experiences, pressures from stakeholders, etc., will be also collected by this item. We therefore propose to assess

CEOs' satisfaction with performance as a more direct, perceptual indicator of 'attainment discrepancy' – i.e., of how CEOs *evaluate* and *interpret* the obtained results.

Consequently, following the BTF's baseline logic we expect that the lower the CEO's satisfaction with the obtained results (i.e., the higher 'attainment discrepancy'), the more the CEO will be inclined to change its strategic behavior. The latter also allows us to use objective performance cues – and more in particular the relative performance obtained by a firm in comparison to their peers or *organizations' performance compared to the industry* – as a moderator of this relationship. We do so due to while the BTF-inspired research proposes a universally negative relationship between dissatisfaction generated by 'attainment discrepancy' and subsequent change intentions, other theories and perspectives have suggested differently. For instance, high satisfaction with results (as a consequence of a small or negative 'attainment discrepancy') could instigate self-confidence and efficacy beliefs and, subsequently, proactive behaviors such as strategic changes (Chatterjee & Hambrick, 2011; Haleblian & Rajagopalan, 2005; Mahto & Khanin, 2015). Conversely, high dissatisfaction with such results might cause conservative behavior (Chatterjee & Hambrick, 2011; Staw et al., 1981). In an effort to reconcile these apparently contradictory perspectives, we propose that contextual cues at the organizational level might matter in determining organizational behavior. In particular, we argue that the *organization's performance compared to the industry* indicates this organization's relative position in its industry (Kacperczyk et al., 2015) and serves as a signal of the adequacy of the organization's current strategies (Baum et al., 2005) as well as of CEOs' overall capabilities (Chatterjee & Hambrick, 2011). We expect that this contextual cue will interact with CEOs' satisfaction levels, and that the negative baseline effect of CEOs' satisfaction with performance on the magnitude of intended strategic changes will be less pronounced the higher the organization's performance compared to the industry.

Once disentangled how managerial decisions are made and in which degree they rely on objective vs perceptual indicators, the aim of this study is to move away from the prism of processes and focus its attention on the effects that organizational-level characteristics might have on generating different results among firms. In particular, our analysis focuses on the last financial crisis occurred globally, which

reached its most virulent peak during 2008 and 2009 and which has been characterized by its non-munificent features and devastating effects on the (Spanish and worldwide) economy; and more specifically, on testing whether the fact of being a family firm influences the financial position obtained by an organization during such non-benevolent contexts.

Family firms, which represent the 88.8% of the whole Spanish business base (Instituto de la Empresa Familiar, 2015), are usually defined as a unique combination of two sets of rules, values, and expectations: the ones related to family and the ones related to business (Flemons & Cole, 1992; Gersick et al., 1997; Tagiuri & Davis, 1996). Moreover, it is argued that these firms share certain characteristics that render them unique in terms of patterns of ownership, governance, succession and the desire for the continuity of the family involvement in the organization (Chua et al., 1999; Steier, 2003). Similarly, family firms often have a strong emotional component present in their decision-making process that separate them from other organizational forms (Basco & Pérez-Rodriguez, 2009; Berrone et al., 2010; Distelberg & Sorenson, 2009; Gomez-Mejia et al., 2011; Hall & Nordqvist, 2008). This emotional component is reflected in its will to preserve the socioemotional wealth of the firm that according to Gomez-Mejia et al. (2007, p. 106) refers to "the non-financial aspects of the firm that meet the family's affective needs, such as identity, the ability to exercise family influence, and the perpetuation of family dynasty". Closely related to this aspect, several scholars have highlighted that family business managers "have superior incentives for maximizing firm value and, therefore, need fewer compensation-based incentives" (McConaughy, 2000, p. 121). That is to say, these managers will not have their individual interests as a priority but those of the organization. Similarly, family ties seem to affect the way these companies invest, which is more related to efficiency because of their higher willingness to continue (Gimeno et al., 1997). This supposition is confirmed by several research such as Jensen (1986) who argues that family firms create greater cash levels, which make them rely less on debt as a form of financing; and Anderson and Reeb (2003) who anticipate that these firms have greater reliance on self-financing than non-family firms, which reduces their likelihood of default.

Based on these findings, in this study we propose that family ownership will affect positively the financial strength obtained by an organization and, as we test this

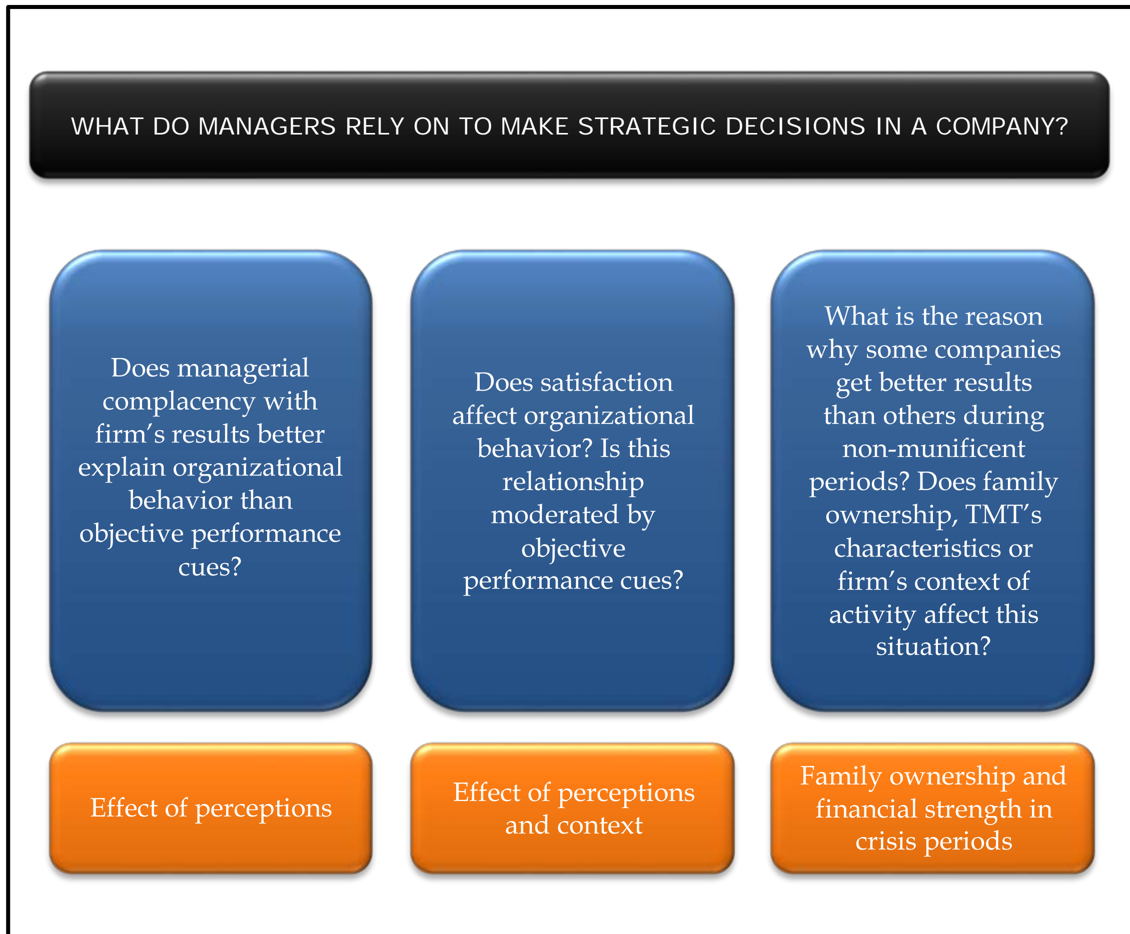
phenomenon under a non-munificent context (which could affect the future and viability of the firm), we argue that these results would do nothing but support our prior definition of socioemotional wealth.

Additionally, following Hofer and Schendel (1978) and Sharma et al.'s (1997) research we argue that considerable understanding could be gained by appending strategic management insights on the family firm research approach. In this vein, we establish that the effect of family ownership on firm's financial strength will not be isolated but will be also affected by several aspects such as the organization's scope of operation (measured with firm internationalization and diversification) and the characteristics of its key-role players (measured by TMT educational level and TMT average age). In particular, and especially during the non-munificent context where we set our analysis, we anticipate a positive moderation effect of both internationalization and diversification – which will potentially minimize the global risk faced by such firms and will increase their opportunities for success due to their access to more heterogeneus markets (Goetzmann & Rouwenhorst, 2005; Sanchez-Bueno & Usero, 2014) – on the relationship between family ownership and firm's financial strength.

For its part, we anticipate that TMT educational level will negatively affect this relationship (as opposed to older managers that will positively influence this interaction). We based our argumentation on concepts from the *upper-echelons* theory (Hambrick & Mason, 1984) which convincingly claims that managers and their characteristics matter in affecting strategic decision-making processes, and, in turn, organization-level outcomes. More particularly we establish that highly educated managers will leverage more due to their inherent characteristics such as higher confidence with investments, more openness to change, better deal with ambiguity and complexity, etc. (e.g., Bantel & Jackson, 1989; Barker & Mueller, 2002); therefore negatively affecting the financial strength presented by their (family) firms. Contrarily, we anticipate that older managers will leverage less as they tend to choose for more conservative capital structures, be more prudent with their actions and behavior, possess less physical and mental stamina to seize perceived opportunities (Chen et al., 2010; Child, 1974; Hambrick & Mason, 1984) will leverage less; therefore positively affecting the financial strength presented by their (family) firms. All this may be

shorten in a general research question and three sub-questions that we will try to answer throughout this dissertation. Next, we collect them in a chart (see Figure 1).

Figure 1. Main research questions of this dissertation



Source: Prepared by the authors.

To summarize, the main goal of this doctoral dissertation is to investigate how managerial decisions are made and in which degree they rely on objective vs perceptual indicators. With this, we attempt to incorporate insights from a cognitive approach into performance feedback literature and therefore, to better understand organization's behavior. As no decision can be evaluated without its consequences, in this research we also intend to unravel the reasons why some organizations have better (financial) results than others and, especially, during the last financial crisis occurred globally. To do so, we investigate the effect of family ownership, firm's context of activity and managerial characteristics as potential factors of this phenomenon. To

reach these objectives we use both archival and questionnaire information from a sample composed by 137 Spanish medium-sized enterprises.

1.2. OUTLINE OF THE DISSERTATION

Chapter 2 aims to deepen the knowledge upon the intermediate hidden mechanisms whereby performance feedback cues generate specific reactions in organizations and specifically, to accentuate the relevance of evaluating the effects of executives' perceptions and cognitions in these strategic decision-making processes.

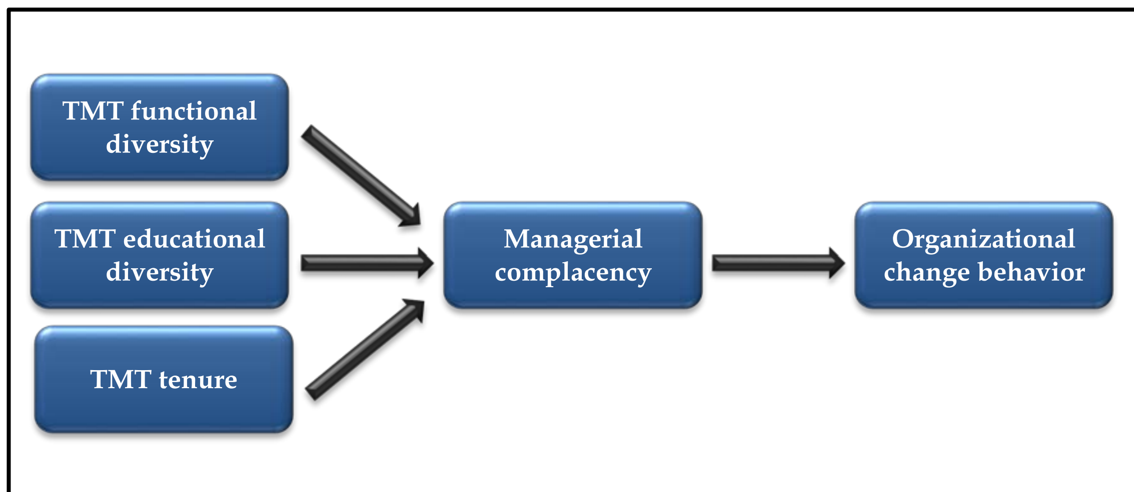
In the extant literature, the dominant perspective used to explain organizational behavior is the *Behavioral Theory of the Firm* (Cyert & March, 1963). However, despite its dominance scholars have also developed contradictory theoretical perspectives, and found mixed evidence (Bowen et al., 2010). This chapter analyzes the different theories proposed and the potential causes of the results incongruity. In particular, it is argued that scholars have almost invariably used objective performance figures (Lawrence, 1997; Ocasio, 1997) to determine organizational responses and have rarely considered managerial attitudes and perceptions explicitly – even though the latter are actually assumed to act as perceptual filters of reality, used in decision-making (Hambrick, 1994; Lawrence, 1997; Cho & Hambrick, 2006). In this vein, with the objective of integrating apparently contrary findings and better understanding performance feedback consequences, it is proposed the use of the *managerial complacency* with firm's results: a cognitive variable which combines the traditional (objective) measurement of performance feedback with the CEO's satisfaction (or perception) with these results.

Our results indicate that managerial complacency has a negative effect on organizational change behavior. Therefore, we may assume that firm's strategic change will be enhanced (just) in front of low managerial levels of complacency with organizational results, disregarding the sign of the objective performance feedback obtained by the firm. With this, we argue that objective performance feedback by itself (which has almost uniquely run organizational behavior – for a review, see Shinkle, 2012) does not properly rule organizational behavior actions. Consequently, we provide support to state that the ambiguous effects proposed by the different

perspectives (also based on objective cues) might not be confronted; but rather form part of the same whole.

Additionally, to further explore the mechanisms by which performance feedback cues lead to certain organizational strategic reactions, in this chapter we take one step back to analyze the influence of some executives' characteristics on the resulting level of such managerial complacency finding that TMT functional diversity will negatively affect this variable; while TMT tenure will positively affect the level of complacency shown by the managers in their evaluations. Figure 2 (see below) shows the theoretical concepts and relationships analyzed throughout this chapter.

Figure 2. Conceptual model of Chapter 2



Source: Prepared by the authors.

In the meantime, **Chapter 3** proposes to individually consider *CEO's satisfaction with performance* as a direct measure of performance feedback or 'attainment discrepancy' (Haleblian & Rajagopalan, 2005) instead of using a combination of it with objective values.

In this way, this chapter studies the significance and impact of satisfaction on subsequent organizational behavior more deeply. More specifically, it argues that managers' satisfaction with performance can be seen as an 'a posteriori variable' that adds perceptual information to the interpretation of performance feedback that is not captured by uniquely collecting information from objective performance cues (cf.,

Matho & Khanin, 2015). In other words, it argues that CEOs' satisfaction with performance emerges from more than solely objective (financial) results. Our results confirm this proposition showing a superior explanatory power of this variable as opposed to the one presented by the traditional (objective) measurement of performance figures.

However, several authors such as Audia et al. (2000, p. 849) argue that "the effect of satisfaction is more complex than is generally thought" and particularly, establish that when it comes to strategic changes, issues such as decision makers' self-efficacy, goal-setting behavior, and confidence in the effectiveness of the organization's current strategies may also factor in (Audia et al., 2000). Following this proposition, Haleblian and Rajagopalan (2005) propose to account for these managers' feelings of efficacy and achievement when studying the effect of performance feedback on strategic change. To address this aspect, this chapter proposes to introduce a contextual moderator – and more in particular, *organizations' performance compared to the industry* – that would interact with CEO's satisfaction to affect organizational behavior.

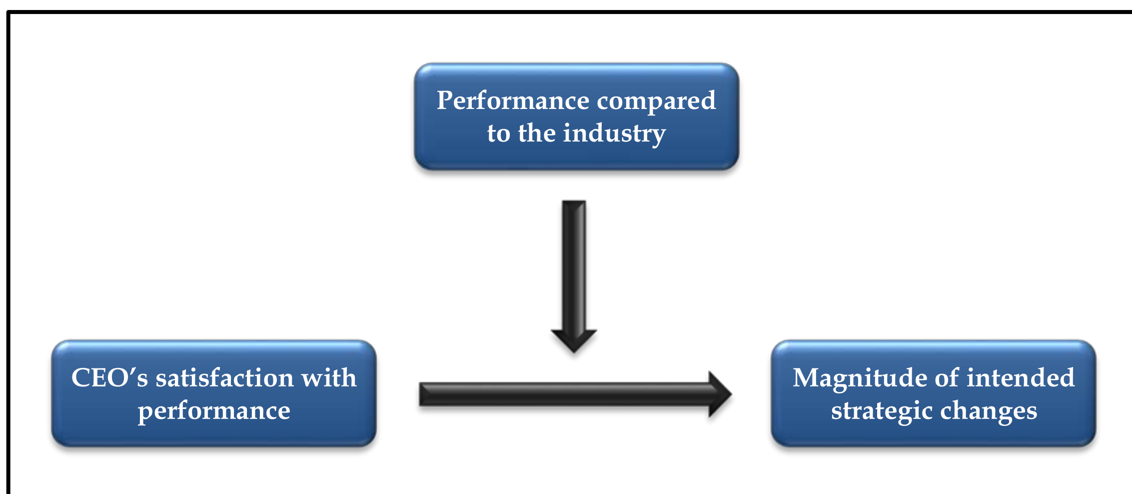
Consequently, we obtain a relevant improvement for the palette of options. Thus, as Chapter 2 and the first part of Chapter 3 (just) argued for a negative relationship among respectively complacency (represented as the difference between satisfaction and objective firm's results) and satisfaction, and strategic change[1] – i.e., they anticipated that the higher the 'attainment discrepancy', the more subsequent change would be generated –; with the introduction of this interaction we observe that dissatisfaction does not always lead to higher strategic change. Hence, if objective performance signals that the current strategies are paying off (as reflected in the organization's performance compared to the industry), it might lead to lower intended changes as it is more 'rational' to bank on and extend what you have been doing before. Similarly, satisfaction does not always lead to lower strategic change. In this sense, we find that extremely high levels of performance compared to the industry

[1] Some of the variables/concepts used in Chapter 2, Chapter 3 and Chapter 4 are exactly the same despite having different denominations: e.g., *organizational change behavior* and *magnitude of intended strategic changes*; *managers' satisfaction with performance feedback, managers' satisfaction with the objective performance obtained by a firm* and *CEO's satisfaction with performance; TMT educational level* and *TMT members with university studies; number of additional businesses* and *diversification* (see methods section of each chapter to better clarify this issue). However, we have not brought them into alignment on purpose as we wanted to be faithful to reality, maintaining the purity and coherence of the research process carried out in this dissertation.

might induce an upward strive and a boost in the CEO's self-confidence, and consequently lead to an increase in the intended strategic changes. This further underscores that subjective interpretations and objective performance cues jointly affect organizational behavior, and that organizational decision-making processes cannot be unraveled when managers' cognitions and interpretations are not taken into account.

All of this renders us to conclude that the apparently contradictory perspectives in the performance feedback literature are complementary and context-driven. Similarly, for this chapter we have also produced a chart in order to better pinpoint the relationships that are analyzed (see Figure 3).

Figure 3. Conceptual model of Chapter 3



Source: Prepared by the authors.

Chapter 4 moves away from the prism of decision-making processes and focuses its attention on analyzing the effects that organizational-level characteristics might have on generating different results among firms. In particular, this chapter focuses on the last financial crisis, which reached its most virulent peak during 2008 and 2009 and which has been characterized by its non-munificent features and devastating effects on the economy; and more specifically, on testing whether the fact of being a family firm influences the financial position obtained by an organization during such non-benevolent contexts. Thus, in short, the research goal of this chapter

could be captured by the following questions: “Why do some organizations obtain favorable results during crisis periods whilst others hold difficulties or fail? Does family ownership affect this situation?”.

Along the literature, several studies have appraised the differences between family and non-family businesses in terms of goals, ethics, size, financial structure, strategies and corporate governance (Basco & Pérez-Rodriguez, 2009; Berrone et al., 2010; Distelberg & Sorenson, 2009; Gomez-Mejia et al., 2011). In this vein, related research has argued that these differences will ultimately revert in distinct levels of performance, financing and investment options, and risk-taking due to the emotional component which is present within family businesses: the socioemotional wealth. In particular, this factor is believed to be the single most important feature to separate family firms from other organizational forms (Berrone et al., 2010) and refers to the affective needs present in these organizations such as the ability to exercise family control and the perpetuation of the family dynasty (Gomez-Mejia et al., 2007).

Following this argumentation, in this study we find that family ownership affects the financial strength obtained by an organization. That is to say, we find support for the assumption that family firms’ prospects, which are mainly reflected in the preservation of its socioemotional wealth – and therefore on the continuity of the family business (Berrone et al., 2012; Gomez-Mejia et al., 2007) –, will rule the financial behavior shown by these organizations. Additionally, as our research was set on a non-munificent context (which could affect the future and viability of the firm) we argue that these findings would do nothing but support the peculiarities previously mentioned of family companies.

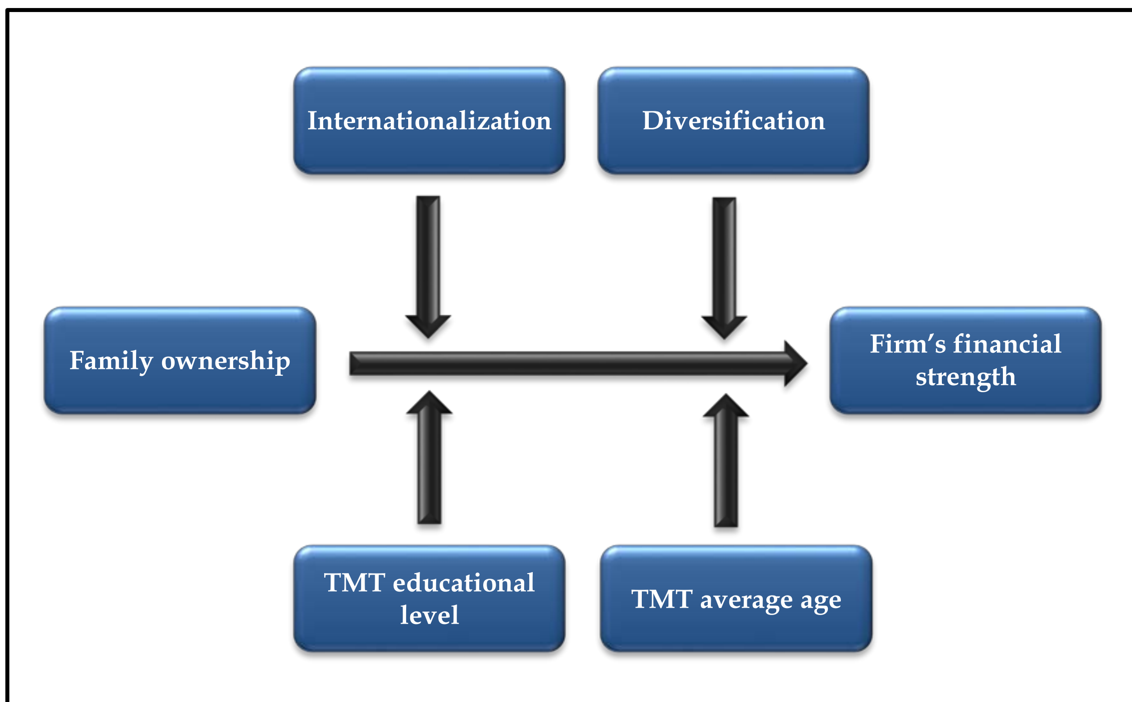
Additionally, following Hofer and Schendel (1978) and Sharma et al.’s (1997) research we argue that considerable understanding could be gained by appending strategic management insights on the family firm research approach. In this vein, we proposed that organization’s scope of operation (measured with firm internationalization and diversification) and the characteristics of its key-role players (measured by TMT educational level and TMT average age) would affect this relationship. However, we do not find support for firm internationalization and diversification affect this relationship. This would denote that the context where the firm is embedded does not affect family firms’ longer outlook for survival (and

therefore their financial strength). Contrarily, we find that managerial average age positively moderates our baseline hypothesis. Thus, it appears that age affects the capital structures (Chen et al., 2010), risk-taken (Barker & Mueller, 2002; Hambrick & Mason, 1984), investment behavior (Wiersema & Bantel, 1992) and ability to deal with information (Taylor, 1975) therefore generating lower levels of leverage for managers with older age – and as a consequence a positive effect on the financial strength. In this research we also find that highly educated managers generate lower levels of financial strength than low educated ones; therefore negatively moderating the relationship between family ownership and firm's financial strength. Thus, it seems that TMT with higher educational levels will indeed leverage more, which therefore would negatively affect the financial strength presented by their (family) firms.

Furthermore, more in detail results suggest that there are not significant differences among those managers who have little training and belong to either a family or a non-family firm. This would suggest that despite belonging to one type of firm or the other, these managers will leverage less than highly educated ones and for that reason, there would not exist differences among this group. However, when managers are highly educated, the financial strength obtained by family firms will be greater than the ones obtained by non-family firms, i.e., there will be significant differences among them. We argue that such differences could be explained by family firms' inherent characteristics such as to invest more efficiently, take less risk-averse options, rely less on debt, look for a higher continuity of the firm, etc. which would reduce the negative effect over firm's financial strength actually promoted by highly educated managers in non-financial firms.

In addition, a finding to highlight in our study is that TMT characteristics (in our study TMT average age and TMT educational level) seem to have just a marginal effect among family businesses. That is to say, despite the presence of high or low values of these TMT characteristics, the financial strength shown by these organizations keeps stable. However, within non-family firms, we observe that TMT characteristics do matter in affecting organizational outcomes. Consequently, we suggest that family firms' prospects seem to rule the behavior of these organizations. Figure 4 (see below) collects a summary of the conceptual model analyzed in this chapter.

Figure 4. Conceptual model of Chapter 4



Source: Prepared by the authors.

Chapter 5 summarizes the most important empirical findings per chapter, and discusses the relevant theoretical and practical implications of this doctoral dissertation. Furthermore, it collects recommendations for future research.

For its part, **Chapter 6** serves to comply with the standards established by the University of Valencia for obtaining the International Mention on the Doctoral Degree. Thus, it provides a summary (in Spanish) of the objective, theoretical basis, findings and conclusions of the dissertation.

Chapter 7 shows the documents sent to the organizations that composed our sample: questionnaire, introduction letter and pre-notice letter. Additionally, this section illustrates the tests performed to control for common method variance within our analysis.

To conclude, **Chapter 8** collects a list of all the references used for the elaboration of this dissertation. A brief summary of the parts and contents of this dissertation may be observed in Table 1.

Table 1. Structure of the dissertation: Parts and contents

STRUCTURE OF THE DISSERTATION
CHAPTER 1: INTRODUCTION Description of the objective and outline of the dissertation.
CHAPTER 2: HOW CAN COMPLACENCY MOLD MANAGERIAL DECISIONS? THE ROLE OF PERCEPTIONS IN STRATEGIC DECISION MAKING Research on organizational strategic reaction to performance feedback by using the *managerial complacency* with firm's results: a cognitive variable which combines the traditional (objective) measurement of performance feedback (or *'attainment discrepancy'*) carried out by the BTF-inspired literature with the CEO's satisfaction (or perception) with these results. In this study it is also analyzed the influence of executives' characteristics on the resulting level of this *managerial complacency*.
CHAPTER 3: CEO SATISFACTION AND INTENDED STRATEGIC CHANGES: THE MODERATING ROLE OF OBJECTIVE PERFORMANCE CUES This investigation gives a turn of screw to the micro-processes and mechanisms that underlie the translation of *'attainment discrepancies'* into subsequent actions. To do so, (1) *CEOs' satisfaction with performance* is used as a direct indication of *'attainment discrepancy'* to collect perceptual information of his/her interpretation of performance feedback, and (2) *organization's performance compared to the industry*[2] is incorporated as a contextual variable that interacts with CEOs' satisfaction with performance to affect/moderate organizational change intentions.
CHAPTER 4: FINANCIAL STRENGTH OF FAMILY FIRMS DURING NON-MUNIFICENT PERIODS: THE EFFECTS OF TMT's CHARACTERISTICS AND SCOPE OF OPERATION Study of the reasons why some organizations obtain good (financial) results during crisis periods whilst others hold difficulties or fail. In this investigation *family ownership* is defined and analyzed as a potential factor of the differences in *financial strength* presented among organizations. Moreover, it is also tested whether firm's context of activity and TMT's characteristics may affect this relationship.

[2] Evidently, this variable is related to *CEOs' satisfaction with performance*, as higher levels of *organization's performance compared to the industry* should make CEOs feel better (more satisfied) about their firm's results (see the corresponding chapter for more information). This is probably why many performance feedback scholars have simply used *organization's performance compared to the industry* as a proxy for 'attainment discrepancy'. However, as we further discuss, *organization's performance compared to the industry* will be simultaneously much less and much more than 'attainment discrepancy'.

CHAPTER 5: CONCLUSIONS Outline of empirical findings, theoretical implications, practical connotations and future lines of research which underlie from our investigation.
CHAPTER 6: RESUMEN Y RESULTADOS DE LA TESIS DOCTORAL Summarization (in Spanish) of the objective, theoretical basis, findings and conclusions of the dissertation.
CHAPTER 7: APPENDICES In this section we collect the questionnaire, introduction letter and pre-notice letter sent to the firms which compose our sample. Moreover, we describe the controls for common method variance carried out in our investigations.
CHAPTER 8: REFERENCES List of references used in the elaboration of this dissertation[3].

Source: Prepared by the authors.

[3] Both this section and the rest of the dissertation follow the APA (American Psychological Association) citation standards: the most commonly style to cite sources within the social sciences. For more information, consult the Publication Manual of the American Psychological Association (American Psychological Association, 1994).

CHAPTER 2:
How can complacency mold managerial decisions? The role of perceptions in strategic decision making

2.1. INTRODUCTION

The study of the strategic response of organizations to performance feedback has aroused the interest of a substantive stream of scholars (e.g., Greve, 2003; Shinkle, 2012) since Cyert and March (1963) started to research the reasons why organizational change was promoted. The most prominent perspective in this research area is the *Behavioral Theory of the Firm* (Cyert & March, 1963), which has heavily inspired organizational behavior literature. This theory anticipates that organizations set goals and adjust their behavior in response to performance cues. More specifically, the BTF contemplates that organizations' decision makers pursue a search and change behavior (only) after perceiving a negative performance feedback – i.e., when performance is below a predetermined aspiration level, which is generally delineated from the average of its peers' performance or from its own performance in previous years –, a postulation which has been extensively accepted and proved in the literature (for a recent review, see Shinkle, 2012; for an exception, see Lohrke et al., 2006). Nevertheless, without regard to the prevalence of the BTF-inspired view, scholars have also found some ambiguous evidence that support contrary assumptions. For instance, there are some findings in the literature which suggest that organizational change behavior is instigated by positive performance feedback instead of by a negative one, as proposed by the '*organizational slack*' (Daniel et al., 2004) or the '*capability cue*' perspective (Chatterjee & Hambrick, 2011). In the same vein, scholars have also carried out studies where negative performance feedback is not related to higher organizational change behavior, but lower one. The latter has been explained, for instance, by the '*threat-rigidity*' perspective (Staw et al., 1981).

These findings emphasize the lack of results concordance on this assumption and highlight the necessity to go into the depth and identify potential factors that influence the translation of performance feedback cues into subsequent organizational behavior actions (Jordan & Audia, 2012). Inspired by this, in this study we accentuate the relevance of evaluating the effects of executives' perceptions and cognitions in strategic decision-making processes (Ocasio, 1997) – something which has unusually been under investigation despite having been considered to act as filters of reality, used in decision-making (Cho & Hambrick, 2006; Hambrick, 1994; Lawrence, 1997; Ocasio, 1997). One illustration of this situation is shown by the little attention that has

been paid to understand the decision makers' assessment process of performance feedback despite, along the literature, it is profoundly argued that these interpretations work as perceptual filters of the actual state of things and may largely help to disentangle the reasons why strategic change is promoted (Elsbach & Kramer, 1996; Staw, 1980). Thus, taking the latter into account a company could be performing poorly according to informed outside observers, but whether their managers unrealistically "assess their own performance as positive, then performance feedback theory's critical prediction that low performance induces the decision maker to intensify problem-solving responses is less likely to hold" (Jordan & Audia, 2012, p. 214), which would contradict the BTF assumptions and would open future directions for research.

In this vein, with the aim of supplementing organizational behavior research and integrating apparently contrary findings about performance feedback consequences, we propose to add into the equation the *managerial complacency* with firm's results, a cognitive variable which combines the traditional (objective) measurement of firm's performance carried out by the BTF-inspired literature when determining the strategic response of organizations (which is basically obtained as the difference between firm's current performance and its peers/historical results), with the executives' perception (or valuation) of these results. Consequently, this variable would permit to show the level of managerial conformism with firm's outcome regardless its objective value (Kawall, 2006; Pascal, 2011). In particular, the managers' level of *complacency* would reach its minimal value when despite the fact the firm obtains high levels of (objective) performance, their perception is rather poor. Nevertheless, it would reach its maximal value when in spite of getting bad (objective) results, the managerial perception presents elevated values. Several scholars such as Sánchez-Peinado et al. (2010) support these precepts anticipating that the intentions to change of the managers jointly rely on their perceptions and interpretations of the results achieved and on the objective data. Additionally these authors argue that in spite of perceptions incorporate measures based on subjectivity, they include a tacit assessment of the previous expectations, and can pick up other 'unobservable' influences such as the degree of satisfaction with a certain outcome, the demand for better results by shareholders, or the taking of consideration of different variables that can affect the results (e.g., they may take into account periods of crisis or

restructuration that a firm is suffering), etc. Thus, below-average objective results could even be valued as good if, for instance, previous expectations were more pessimistic.

In this research, we do find that BTF's change reasoning is kept against managers who are *not complacent* with firm's results. Hence, we anticipate that firm's strategic change behavior will be enhanced (just) in front of low managerial levels of *complacency* with organizational results, disregarding the sign of the objective performance feedback obtained by the firm. This conjecture would confirm that perceptions with results also drive firms' strategic change behavior instead of being merely based on 'visible' measures of performance feedback. This argument is supported by Ocasio's (1997) research where it is advocated that managers' decisions depend to a high degree on how they perceive the reality and how much they feel the necessity to react. Thus, by incorporating insights from a cognitive approach, this chapter builds upon recent efforts to advance performance feedback theory (Greve, 2003).

To further explore the mechanisms by which performance feedback cues lead to certain organizational strategic reactions, in this research we take one step back to analyze the influence of executives' characteristics on the resulting level of *managerial complacency*. Prior literature about *upper-echelons* view (Hambrick & Mason, 1984) has likewise focused its attention on this aspect highlighting the importance to analyze organizations' decision makers, and more particularly their characteristics, when explaining the outcomes, strategic decisions and behavior adopted by a firm (Bantel & Jackson, 1989; Buyl et al., 2014; Hambrick & Mason, 1984). Similarly, as widely recognized by this literature stream, research seems to agree in determining that the study of these characteristics will be critical to delineate their perceptions (Hambrick & Mason, 1984) which, in the last instance, will rule the change actions carried out by the organization (Cho & Hambrick, 2006; Hambrick & Mason, 1984; Sánchez-Peinado et al., 2010).

Hence, in line with these suppositions, in this study we focus our attention on assessing the influence of several managerial characteristics on the level of *managerial complacency*. In particular, we analyze the top management team (TMT) functional diversity, TMT educational diversity and TMT tenure as these variables have previously received extensive interest in the literature about organizational behavior

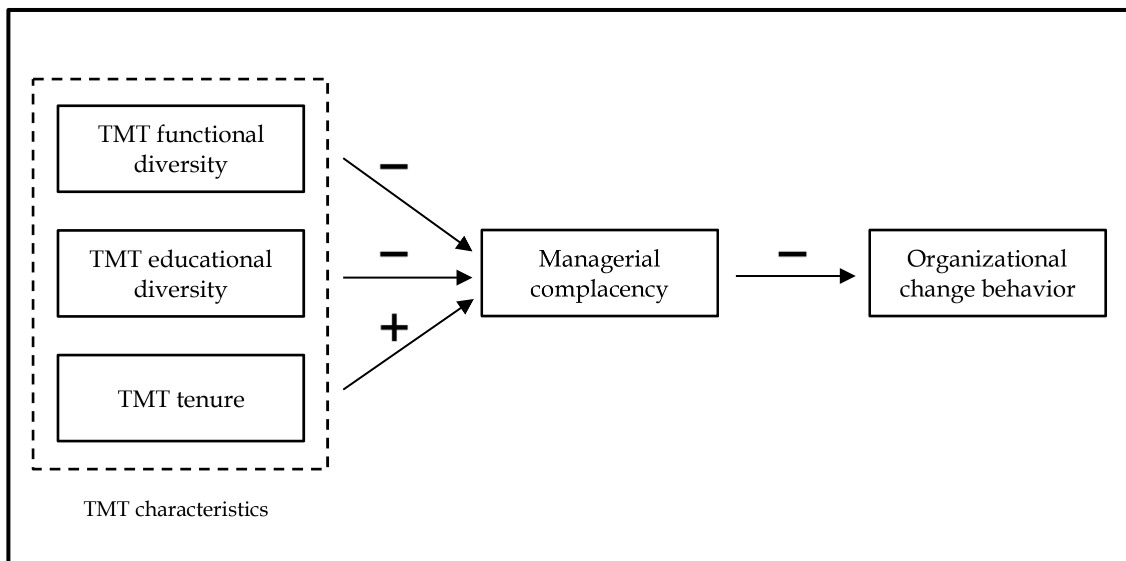
and decision-making (e.g., Buyl et al., 2012; Diaz-Fernandez et al., 2015; Escribá et al., 2009; Messersmith et al., 2014).

Thus, due to TMT functional diversity and TMT educational diversity are usually related to a greater breadth of perspectives and higher levels of information computation (Bantel & Jackson, 1989; Cho & Hambrick, 2006; Eisenhardt & Schoonhoven, 1990; Haleblian & Finkelstein, 1993; Olson et al., 2006; Randel & Jaussi, 2003), in this research we anticipate a negative relationship between these two variables and the level of *managerial complacency.* That is to say, we expect that decision makers which hold high levels of functional and educational diversity in their teams produce less complacent evaluations.

Meanwhile, longer-tenured managers tend to limit their information processing and be more easily satisfied due to, over time, these individuals develop more fixed habits, rely more on past experience instead of on new stimuli and generate more steady routines and structures (Escribá et al., 2009; Hambrick & Fukutomi, 1991; Katz, 1982; Miller, 1988; Miller & Friesen, 1984; Pfeffer, 1983; Pla et al., 2010). Thus, along this research we propose a positive relationship between the TMT tenure and the level of *managerial complacency*. That is, we anticipate that decision-making teams with longer firm services will yield more complacent or conformist evaluations.

In this way, in our research we integrate Hambrick and Mason's (1984) *upper-echelons* perspective with Cyert and March's (1963) BTF research. Figure 5 (see below) shows the theoretical concepts and relationships analyzed throughout this chapter.

Figure 5. Research model



Source: Prepared by the authors.

To empirically test our hypotheses we compile both subjective data (obtained throughout a questionnaire) and objective data (collected from an accounting and financial organizational information database) from 137 Spanish SMEs for a four years' time window as a sampling framework. As expected, we do find a negative relationship between *managerial complacency* and *organizational change behavior* which, in the first place, shows the importance of deepening the knowledge upon the intermediate hidden mechanisms whereby performance feedback cues generate specific reactions in organizations; and secondly, suggests that the study of cognitive and perceptual variables in strategic decision-making processes should be taken into account, as these variables could contribute to better understand organizations' change behavior. Thus, based on our findings, we argue that firms will be able to follow distinct change behavior despite obtaining similar objective results and this is due to the potentially different perceptions of managers over such results (or what we call *managerial complacency*). In particular, these discoveries connote that the effects predicted by the BTF-inspired view and the apparently contradictory literature may not be in conflict, but rather form part of the same continuum. Additionally, they suggest that a deeper understanding of subjective performance conceptualization may

help to shed light on deviations from the predictions of conventional performance feedback research, which are not yet fully understood.

Likewise, to further understand the mechanisms by which performance feedback cues lead to subsequent organizational behavior actions, in the present study we aim to disentangle the potential effects of executives' characteristics on the resulting level of *managerial complacency*. As anticipated, we obtain a negative relationship between TMT functional diversity and the *managerial complacency* obtained and a positive relationship between TMT tenure and the latter; while we do not detect any significant results for TMT educational diversity.

In the following sections, we first introduce the conceptualization and characteristics of the BTF research stream and the apparently contradictory perspectives found in the literature. Then, introducing a perceptual performance variable, the *managerial complacency* with results, we describe under which situations *organizational change behavior* is consistent with the BTF reasoning. The chapter concludes by mentioning several limitations of the article and addressing implications for future research.

2.2. THEORY AND HYPOTHESES

2.2.1. Performance feedback and organizational change: the BTF and alternative perspectives

When and how executives make the decision to engage in organizational change is both theoretically and practically consequential as shown by its deep study across a wide set of organizational and behavioral theories. In particular, organizational change is argued to be source of adaptation, learning and evolution (Cyert & March, 1963; Hannan & Freeman, 1989). Similarly, this variable is frequently associated with performance implications, which emphasizes the relevance of understanding the reasons why managers make such decisions (Gavetti, 2012).

The dominant perspective in this domain is the BTF (Cyert & March, 1963). This theory, established under several assumptions of the Carnegie School such as bounded rationality, backward-looking orientation and rule-based adaptation (Cyert & March,

1963; Gavetti et al., 2012; March & Simon, 1958; Shinkle, 2012), contemplates that firms (and their managers) determine their strategic behavior as result of assessing its performance feedback, following simple decision rules. The latter has been operationalized in the organizational behavior literature through many different ways (Short & Palmer, 2003); however, most studies consider that organizations use some form of preset aspirations in order to determine whether their performance feedback is positive or negative (Chen, 2008). In particular, this stream of literature anticipates that when perceiving a negative performance feedback, that is to say, when performance drops below a particular aspiration level – usually drew as firm's peers performance (*social comparison performance feedback*) or firm's performance in prior years (*historical performance feedback)* –, organization's decision makers will start a '*problemistic search'* behavior through which they will attempt to find solutions to improve this dropping performance (Cyert & March, 1963). In particular, these solutions may be related to different issues such as strategic change (Greve, 2003; Lant et al., 1992), increase in firm's risk-taking (Bromiley, 1991) or innovation (Bolton, 1993), etc. Accordingly, '*problemistic search'* generally involves deviations from the main organization's activities (Greve, 1998).

Following BTF's assumptions, a wide range of scholars have empirically proposed and proved this negative relationship between performance feedback and change and search behavior (e.g., Greve, 2008; for a review, see Shinkle, 2012). However, despite the validity and dominance of this theory in the performance feedback research, opposite results have been similarly found (Bowen, et al., 2010). For instance, several researchers have put forward alternative theoretical positions which confront the BTF precepts, proposing a positive relationship between those variables; the latter has been deeply supported by the '*organizational slack*' perspective (Daniel et al., 2004), the '*threat-rigidity'* perspective (Staw et al., 1981) or the '*capability cue*' perspective (Chatterjee & Hambrick, 2011). In line with the '*organizational slack'* perspective, it is stated that positive performance feedback may be perceived as an increase of organizations' excess resources, also called slack, which in turn might be used to increase the organizational change and search behavior (Daniel et al., 2004). Similarly, the '*threat-rigidity'* perspective suggests that when facing a threat – such as a proximal discontinuance situation or a simple negative performance feedback –,

organizations might decrease their change and search behavior (Miller & Bromiley, 1990; Staw et al., 1981; Wiseman & Bromiley, 1996). However, the '*capability cue*' perspective (Chatterjee & Hambrick, 2011) dives more on psychological aspects of decision-making processes articulating that performance feedback is seen by firm's managers as an indicator or a 'cue' of its current level of ability to perform a certain level of former performance. In this sense, this perspective argues that "when a person receives negative or positive feedback in a domain of central importance to his or her psychological self-concept (such as its level of capacity to obtain a certain performance), it spills over and influences his or her sense of potency in multiple domains" (Chatterjee & Hambrick, 2011, p. 206). Therefore, these 'cues' will encourage or discourage managerial self-confidence in their abilities when respectively positive or negative performance is previously perceived. In particular, positive performance feedback will increase managers' self-confidence in their abilities and stimulate their risk-propensity and change behavior. Nevertheless, negative performance feedback will have contrary effects, decreasing managerial ability-confidence and their will to change and innovate (Chatterjee & Hambrick, 2011).

Our study is inspired by the existence of these inconsistent results along with the call for a reconciling perspective made by some scholars such as Chatterjee and Hambrick (2011) and Jordan and Audia (2012). Additionally, this research is motivated by the "questionable" premise established in the existing performance feedback literature, which suggests that researchers understand how managers make strategic change decisions: by assessing organizational performance feedback, and more concretely, by comparing the current performance obtained by the firm with their previous aspirations (Shinkle, 2012, p. 448). However, as Shinkle (2012) and Mahto and Khanin (2015) claim, this statement is somewhat pretentious and other factors, such as managers' perceptions with these results, will also need to be under consideration to better understand strategic decision-making processes.

2.2.2. Decision makers as performance feedback evaluators

The lack of analytic precision when predicting the impact of performance feedback on organizational behavior is argued to be one of the main determinants of the existing incongruences in the literature (Greve, 2003). In fact, the traditional

performance feedback theory suggests that decision makers' subjective assessment of organizational performance must be analyzed and understood "as it really is" and not simply discerned as an inherent "specification of the situation" (March & Simon, 1958, p. 172). Nevertheless, practically most of the studies in this literature stream show performance feedback as a mere objective element that compares the organization's current performance with its past or peers' performance (understanding these values as previously default aspiration levels by the organization) and, in case this level of performance falls short according to its preordained standards, it is explained that an alert mechanism will be generated which will enhance the search for solutions and changes in the activities of the organization (Cyert & March, 1963; Greve, 2003; Greve, 2008). This premise is based on the assumption that decision makers present temporal consistency in their standards for evaluating performance and accordingly set prospectively their goals (aspirations), which remain fixed across the whole assessment process.

We argue that as performance feedback theory is essentially a cognitive theory (Labianca et al., 2009; Shinkle, 2012), a more comprehensive model of how decision makers assess organizational performance and respond to it must go beyond this objective assumption. Hence, following Jordan and Audia's (2012) recommendation, in this chapter we extend the component of the theory that concerns performance assessment by identifying a broader range of cognitive strategies that affect decision-making processes. In fact, along the literature little attention has been paid to these performance evaluation processes despite it is argued that managerial perceptions and interpretations may broadly help to more precisely understand whether strategic change is (or is not) promoted within organizations (Elsbach & Kramer, 1996).

However, some steps have been taken in this sense lately. For instance, Labianca et al. (2009) propose that many factors other than objective performance cues might affect organizational behavior. In this vein, Jordan and Audia (2012) argue that decision makers may generate self-enhancing assessments of objective low performance when seeking to improve their self-image by assessing this performance as satisfactory – and therefore aligning it more favorably with the observed performance. This, in turn, would diminish behavioral responses to poor performance due to "the gap between desired performance and actual performance is minimized,

reducing or even eliminating the perception of performance problems" (Jordan & Audia, 2012, p. 214) – which would contradict BTF-conventional reaction of decision makers to negative performance feedback. Similarly, Labianca et al. (2009) propose that strong performers sometimes have higher intentions to change if they actively strive for even higher performance levels in the future, therefore generating a modification of their aspirations. In the same vein, Haleblian and Rajagopalan (2005) suggest that it is not appropriate to apply the same standard to determine aspirations for all organizations, as aspirations can themselves fluctuate across managers in varying organizations. The latter is supported by the original work of Cyert and March (1963), which states that decision makers hold the chief subjective influence on performance assessment and, therefore may critically distort this evaluation process. In a relative vein, Jordan and Audia (2012, p. 218) argue that this consideration is especially important for advancing in performance feedback theory, since it may help to "assess performance as accurately as we can".

Building on these precepts we argue that the impact of performance feedback on strategic change and the causal processes behind it need to be considered more fully. In particular, in this research we relax the assumption that strategic reactions of organizations to performance feedback are (exclusively) driven by the traditional (objective) measurement of firm's performance carried out by the BTF-inspired research – which is based on some form of aspirations and generally operationalized as the difference between firm's current performance and its peers or historical results –, but they will also depend on executives' perceptions and cognitions with the current results obtained by the firm, i.e., managerial actions will likewise be affected by their own insights of the reality (Ocasio, 1997). Therefore, in order to better grasp the translation of performance feedback cues into subsequent organizational behavior actions (Jordan & Audia, 2012) we propound to combine both streams, and specifically look for the existent differences between the objective measurement of the performance obtained by the firm and the managers' satisfaction (or perception) over it. That is to say, we suggest adding into the organizational behavior equation what we call *managerial complacency* (with firm's results). Hence, we specify that appending managerial judgments we will shed light on the understanding of the enterprises' adaptive processes eliciting a more meaningful answer from performance feedback

cues. In this sense, Bertrand and Mullainathan (2001) pinpoint that the isolated study of subjective variables – as the secluded analysis of objective variables – would also cast serious doubts on organizational behavior literature because of its measurement error appears to correlate with a large set of characteristics and behaviors (e.g., a drop in reported racism over time may simply reflect an increased reluctance to report racism). Additionally, they also suggest that subjective variables are useful in practice for explaining differences in behavior across individuals though do not appear useful in explaining changes in behavior.

2.2.3. Managerial complacency and organizational change behavior

"In all life one should comfort the afflicted, but verify, also, one should afflict the comfortable, and especially when they are comfortably contentedly, even happily wrong."

(John Kenneth Galbraith)

John Kenneth Galbraith's oft-quoted statement, commonly referred to as *complacency*, has been studied along different areas of the literature. Generally approached theoretically, research has focused on its influence over assessment processes, arguing about its potential effects on subsequent actions. In discussing *complacency* connotation, several scholars have indicated that this variable might be understood as a kind of conformism or feeling of quiet pleasure or security, while unaware of some potential danger or threat (Pascal, 2011). However, as pointed out by Kawall (2006, p. 343) this variable "is not as easily recognized as cruelty, dishonesty, and those vices which lead to distinctively vicious forms of behavior. Instead it works quietly, an often subtle drift into an easy self-satisfaction with one's efforts and accomplishments (no matter how meager)". The latter seems problematic insofar as it could cause some confusion among scholars when linking appropriate or justified feelings of satisfaction as instances of *complacency*. In fact, this looks too broad and, as stated by Kawall (2006), surely good or outstanding performance might generate some level of satisfaction but this ought not to be seen as *complacency*. Conversely, *complacency* seems to require that one be confused with its level of achievement, leading to an excessive satisfaction (Kawall, 2006). That is to say, *complacent* evaluations

will exhibit high levels of satisfaction despite objectively the results obtained do not reflect the same threshold.

Deepening in its effects, Miller and Chen (1996) indicate that the range of actions and the search knowledge of competitive alternatives adopted by a firm are influenced (and restricted) in part by the *complacency* of firm’s decision makers. Similarly, Sánchez-Peinado et al. (2010, p. 75) establish that “the intentionality of strategic change is closely related (among other factors) to how managers perceive and interpret the environmental changes” and to their “level of *complacency* with the firms' performance”, which would specifically reduce this will.

As previously mentioned, the present research introduces this variable into the organizational behavior equation. This determination is based on the premise that managers make decisions about the necessity to react to particular performance cues not only on the basis of what they objectively know, but also depending on what they subjectively perceive and believe (Ocasio, 1997) – something which has been theoretically highlighted on numerous occasions but not investigated in deep (Jordan & Audia, 2012). In this vein, as *complacency* jointly combines the objective performance obtained by the firm (generally measured by the traditional BTF-inspired literature as the difference between firm’s current performance and its peers/historical results) and the managerial satisfaction (or perception) over this performance, we anticipate that its use when determining the strategic response of organizations will probably help to build important advance in organizational behavior literature. Supporting our study, Gordon et al. (2000) theoretically point out that change in situations of bad results is not direct, but depends on the level of *complacency* that the managers face with that situation. In fact, they argue that the objective results are an indicator of the degree of adjustment between the business strategy and the conditions imposed by the environment and serve as a warning system for stakeholders (including managers) on the validity of the current strategy (Gordon et al., 2000). However, as long as those responsible for driving change are not dissatisfied with the results achieved by the company (or show a little complacency with them) there may not be enough incentive to act (Sánchez-Peinado et al., 2010).

One illustration of this situation would occur when a firm that achieves a relative objective high performance (and according to BTF-view would not feel the

urgency to develop a change behavior) gets a little *complacent* or non-conformist evaluation by its managers – due to for example their elevated ambition and expectations – which, as a consequence, would enhance (instead of reducing) its change motivation in order to remedy this 'problematic' peculiarity. Hence, this circumstance would be explained by the 'unpredicted' low levels of managerial satisfaction obtained despite the positive figures shown by the objective performance. The contrary situation would happen when in spite of a firm obtains a relative poor objective performance (which regarding BTF-logic would motivate the take of remedial actions to 'solve' the problem of poor performance), managers present a great acceptance or *complacency* with the results achieved which, as a consequence, would maintain (instead of increasing) the will to change due to the *managerial complacency* and conformism shown with these results. This situation could be given by, for instance, a managerial fail to diagnose a convulsive situation – through an 'unrealistic' perception of good performance –, i.e., managers of this specific firm would be 'unpredictably' satisfied with the poor results obtained because of their unawareness of existing potential dangers over performance. Some scholars go further in their research and anticipate that limitation on change will be accentuated over time, so that resistance to change will grow as the results are considered satisfactory or acceptable over a longer period of time (Boeker & Goodstein, 1991).

Taking these argumentations together, we anticipate that *organizational change behavior* will be boosted in the event that managers show low levels of *complacency* (or conformism) when assessing organizational performance. Conversely, when managers present *complacent* evaluations over firm's results *organizational change behavior* will show an opposite reaction. This situation would be explained by the introduction of the managerial subjective evaluations of organizational performance into the organizational behavior equation. The aforementioned, in turn, would allow disclosing managers' perceptions over the firm's accomplishments and therefore could affect their subsequent actions (Greve, 2003; Ocasio, 1997).

Thus, despite a firm obtains poor objective results (and contrarily to BTF-inspired view conclusions), *organizational change behavior* could not be increased in case that managers show high levels of *complacency* with this performance. In particular, this circumstance would come established by the 'unlooked-for elevated' managerial

satisfaction with these results, which would eliminate the feel of urgency to 'solve' the problem of low performance (Kawall, 2006; Miller & Chen, 1996). Consequently, our contribution introduces certain boundaries on performance feedback traditional theory arguing that organizational behavior will not be (only) dependent on the sign of objective performance obtained by a firm, but on a combination of these results with managerial perceptions over them. Accordingly, we postulate:

Hypothesis 1. There will be a negative relationship between the level of managerial complacency with firm's results and the organizational change behavior.

2.2.4. Antecedents of the managerial complacency: the effect of TMT characteristics

To further understand the mechanisms by which performance feedback cues generate specific reactions in organizations, in this study we take one step back to assess the effects of managers' characteristics on the resulting level of *managerial complacency*. Prior literature about *upper-echelons* perspective has likewise focused its gaze on this aspect arguing that the analysis of organizations' key role players, and specifically their characteristics, is essential in explaining organizational strategic decisions and behavior (Hambrick & Mason, 1984). Similarly, the extant literature on this area seems to agree in determining that the study of these characteristics will be decisive to outline their perceptions (Hambrick & Mason, 1984) which, ultimately, will rule the change actions followed by the organization (Cho & Hambrick, 2006; Hambrick & Mason, 1984; Sánchez-Peinado et al., 2010).

In line with these assumptions, in the present research we particularly focus our attention on assessing the influence of several managerial characteristics, such as TMT functional diversity, TMT educational diversity and TMT tenure, on the level of *managerial complacency* obtained. Specifically, we take this set of variables as its study has previously received extensive regard in the literature about organizational attention and reaction (e.g., Buyl et al., 2012; Diaz-Fernandez et al., 2015; Escribá et al., 2009; Messersmith et al., 2014).

In this way, in our research we integrate Hambrick and Mason's (1984) *upper-echelons* perspective with Cyert and March's (1963) BTF research.

TMT functional diversity

Upper-echelons related research determines that diversity in team composition, i.e., the heterogeneity or inequalities between team members, is related to the breadth of perspectives and perceptions shown by its members (Wiersema & Bantel, 1992; Yokota & Mitsuhashi, 2008) and, generally, it is regarded as an important explanatory factor of organizational outcomes (Van Knippenberg et al., 2004). Thus, according to prior studies, it is argued that the knowledge base of a heterogeneous team will play a crucial role in using broader fields of vision, processing bigger amounts of information and producing more precise assessments (Cho & Hambrick, 2006; Haleblian & Finkelstein, 1993). Similarly, several scholars show that higher heterogeneity will generate greater levels of innovation and will improve the cognitive resources and capabilities of a team to solve problems (Bantel & Jackson, 1989; Eisenhardt & Schoonhoven, 1990).

Nevertheless, other authors demonstrate that this variable certainly hampers interaction (Williams & O'Reilly, 1998), enhance the occurrence of conflicts (Wagner et al., 1984), decreases strategic consensus (Knight et al., 1999) and deteriorates group cohesion (O'Reilly et al., 1989), therefore constraining the wideness of views and interpretations in the decision-making processes (Hambrick et al., 1996). In this sense and due to the lack of consistency of results, Hambrick et al. (1996) research brings light to this issue arguing that despite the existence of both positive and negative factors, the benefits of team heterogeneity outweigh its costs significantly (which suggests a global positive effect of this variable).

Following this approach, next we focus our attention on the study of TMT functional diversity. This variable, defined as the variety of job related knowledge derived from different functional experiences, is argued to improve the access to external information (Aguilar, 1967), increase the attentiveness to various environmental sectors (Daft et al., 1988) and bring "different but complementary knowledge and expertise to the teams" (Bunderson, 2003, p. 458). Moreover, the diversity in the functional background is expected to influence TMT problem solving and decision-making processes (Bunderson, 2003) embracing, in this way, wider and deeper assessments due to differences in perspectives and opinions. Consequently, teams with higher levels of functional diversity will be more aware of the environment

and the circumstances which surround the organization, and will generate more complete interpretations of the reality (Starbuck & Milliken, 1988) which, in turn, will imply obtaining less complacent evaluations and more sifted analyses. Taken together, our second hypothesis runs as follows:

Hypothesis 2. TMT functional diversity will be negatively associated with the level of managerial complacency.

TMT educational diversity

Educational diversity has been argued to provide an indicator of the variety of skills, knowledge and cognitive processes embedded in a managerial team (Bantel & Jackson, 1989; Boeker, 1997; Wiersema & Bantel, 1992). More particularly, *upper-echelons* research has usually related this variable to increments of cognitive abilities and overall problem-solving skills of the group (Bunderson, 2003; Hambrick et al., 1996). Similarly, prior literature establishes that teams with a higher educational diversity will tend to be more efficient at addressing vast information from varying categories in their information processing (Day & Lord, 1992) and will study the industry environment, assess the strengths and weakness of firms, and weigh the pros and cons of strategies more in depth than homogeneous teams will do (Olson et al., 2006).

Thus, following prior approach, we argue that teams with more diversity in the educational background will generate wider perspectives and richer interpretations of the reality (Starbuck & Milliken, 1988) which, in turn, will imply generating less complacent evaluations. In sum, we hypothesize:

Hypothesis 3. TMT educational diversity will be negatively related to the level of managerial complacency.

TMT tenure

Although *upper-echelons* research highlights the relevance of assessing top management team's characteristics to easier understand strategic decision-making processes, there is no single characteristic that has been sufficiently analyzed to completely understand its entire effects. However, the managerial tenure is one of the most significantly studied variables, both under a theoretical and pragmatically point

of view (Pfeffer, 1983). In this sense, prior literature has extensively set out its effects on (1) the commitment to the status-quo, (2) the perceptions towards risk, and (3) the diversity of information analysis.

In the first place, it is expected that longer-tenured executives have stronger bias and are more committed to the status-quo and non-action processes (Hambrick & Fukutomi, 1991). This behavior is sustained in the literature by arguing that managers with long firm services tend to closely adhere to industrial recipes, inertia and dominant logic (Escribá et al., 2009; Geletkanycz & Hambrick, 1997; Pla et al., 2010) and hardly abandon them (Newell, 1997). Likewise, these responses are supported on the fact that as executives spend time in the organization they start being convinced by the wisdom of the organization's way of proceeding (Wanous, 1980) and become more committed to their own prior actions – even if they are not triumphant (Staw & Ross, 1987). Some scholars further analyzed this issue arguing that managerial tenure also generates commitment to policies and practices (Katz, 1982) which enhances the continuity of top management members over the time (March & March, 1977).

The second main effect highlighted by the literature is the influence that this variable has on the attitude towards risk. In this issue, scholars predict that as these individuals have most surely struggled for years to achieve their positions and usually are well established (e.g., in their work, family, friends, communities, etc.) they will have much more to lose than to gain by taking superfluous risks (Coffee Jr, 1988). Therefore, as tenure increases, risk perceptions will become more restricted and managerial risk-averse actions will be pursued more frequently (Coffee Jr, 1988).

Thirdly, it is argued that as key decision makers get longer firm services they tend to limit and restrict their information processing (Miller & Friesen, 1984) due to, over time, these individuals develop fixed habits (Katz, 1982), rely more on past experience instead of on new stimuli (Katz, 1982) and generate more steady routines and structures (Miller, 1988; Miller & Friesen, 1984). In effect, scholars anticipate that under the presence of higher levels of tenure, executives will create a common view (Pfeffer, 1983) that will potentially develop a set number of responses to act against any change (Miller, 1988) which, therefore, will enhance behavioral stability (Katz, 1982). Consequently, Hambrick and Fukutomi (1991) argue that longer-tenured managers will be more easily satisfied with the actions and results performed by the firm.

In short, teams with greater tenure will generate more biased analyses, less number of perspectives and opinions, less information processing about the environment and larger levels of satisfaction (Hambrick & Fukutomi, 1991; Katz, 1982; Miller & Friesen, 1984) which, in turn, will imply obtaining more conformist and complacent assessments. This leads to the following hypothesis:

Hypothesis 4. TMT tenure will be positively associated with the level of managerial complacency.

2.3. METHODS

2.3.1. Sample

To test our hypotheses we assembled a dataset containing both subjective and objective information from 137 Spanish medium-sized firms. In particular, our sample was formed by medium-sized organizations due to although its size allows them to present a formal organizational structure they are normally short of resources, support functions and technical assistance to make strategic decisions. Hence, the abilities of their managers but also their attitudes, perceptions and cognitions turn up as even more important tools for the decision-making processes in this type of firms (Lubatkin et al., 2006). Moreover, the characteristics shown by this setting, e.g., the heterogeneity in its sector of activity: where 60% of these companies belonged to manufacturing industries, whereas 40% were operating in service industries; or the heterogeneity in its main strategic activities of change: encompassing both internationalization and market penetration/consolidation, diversification, etc. help to improve its external validity.

Along this study we followed the '*Tailored Design Method*' designed by Dillman (2000). With this technique, we aimed to create a greater proximity and follow-up of the process in order to obtain a higher response rate. As starting point, we took a random sample of 1000 medium-sized firms (with over 100 and up to 500 employees). Next, we sent a pre-notice letter to the CEO of each firm explaining our study and assuring them the confidentiality of their responses. We specifically selected these actors as respondents due to generally they are considered central, experienced, able to gather specific information not reachable for other key players of the firm and ultimately responsible for the firm's strategic decisions (Arendt et al., 2005; Priem,

1994). We confirmed their participation in completing the questionnaire through random telephone calls to 20 of these firms. It is important to mention that three professors specialized on strategic management and organizational behavior area validated our questionnaire before sending it. Moreover, a revised version was pre-tested with five CEOs from medium-sized firms (not included in the final sample).

Unfortunately, a total of 52 out of these 1000 firms had to be excluded from our database because of incorrect addresses. Ten days after sending such pre-notice letter we sent to the rest of the firms (948) the questionnaire with its corresponding cover letter. We obtained a total of 131 responses, meaning a response rate of 13.8%. However, with the aim of improving this response rate, we forwarded the questionnaire again to the remaining firms. Consequently, we obtained 59 extra responses. Thus, our final sample was composed by 190 questionnaires (representing a response rate of 20.04%). Nevertheless, 7 of these 190 questionnaires had to to be removed for reasons of incompleteness. Therefore, that left us with a total number of 183 valid questionnaires, meaning a response rate of 19.3%. Nonetheless, at this point and due to the chief hypothesis that underlined from our research demanded both subjective and objective information, we complemented the information gathered from the questionnaires (representing the subjective data) with organizations' financial statements obtained from SABI Informa Database, the most important source of business, accounting and financial information in Spain. As a consequence, our final sample got valid information from 137 firms (representing a valid response rate of 14.45%) due to a total number of 46 firms did not have full information available and, therefore, had to be eliminated from our final sample. Hence, the average firm in our sample counted € 31 million, was 37 years in the industry and had a management team of 43 years comprising 7 members with 9 years of tenure.

Comparison t-tests were developed between early and late respondents and between sectorial percentages of the original sample of 1000 firms and the final one to test differences among them. No significant differences were observed between the groups ($p < .05$) (analyses available from the authors on request). Likewise, we checked for the residuals behavior, linearity among variables and inexistence of collinearity between such variables in order to the test the veracity of our analyses.

Additionally, although demographic data was obtained in this research by our survey, to the extent possible, its validity was verified through the objective information obtained through the SABI Informa database. Therefore, potential common method variance[4] problems associated with the collection of information from single informants were minimized. Nevertheless, as most of our variables may be tackled as straightforward variables (e.g., TMT diversity, TMT tenure, TMT size, etc.) any type of distortion by being subjectively measured by one individual is beyond question.

2.3.2. Variables

Dependent variable (1): '*managerial complacency*'

The equivocal nature of the state of the art suggests that more research is needed in order to better understand the impact that performance feedback cues have on organizational behavior actions (Jordan & Audia, 2012). In this sense, scholars seem to agree in arguing that richer interpretations could be obtained when introducing perceptual and cognitive variables in the analysis of decision-making processes (Greve, 2003; Shinkle, 2012). However, despite its relevance, prior literature has hardly empirically tested these assumptions (Lawrence, 1997; Ocasio, 1997).

With the aim of fixing this situation and complementing performance feedback research, in the present study we introduce into the equation the *managerial complacency* with firm's results[5], a cognitive variable which combines the traditional (objective) measurement of firm's performance carried out by the BTF-inspired literature when determining the strategic response of organizations (which is generally operationalized as the difference between firm's current performance and its peers or historical results), with the executives' perception (or valuation) of these results. In particular, this variable shows the difference between both evaluations, which will thereby determine the level of managerial conformism/satisfaction or non-conformism/dissatisfaction with the objective results obtained by the firm. Thus, *managerial complacency* will

[4] A most exhaustive definition of the controls for common method variance executed along the investigations of this dissertation may be found in Chapter 7.

[5] Note that as previously stated, this variable represents a kind of conformism or feeling of quiet pleasure or security, while unaware of some potential danger or threat (Pascal, 2011). That is to say, to obtain a complacent evaluation one must be confused with its level of achievement, leading to an excessive satisfaction (Kawall, 2006).

achieve its minimal values when even if the firm reaches high values of objective performance, managers' perceptions with these results are low. On the contrary, this variable will obtain its maximal values when despite the firm gets low values of objective performance, manager's perceptions about them are high. Consequently, we argue that the consideration of this variable will generate more meaningful results in organizational behavior research.

Decision-making processes involve multiple actors from the upper managerial level; however the CEO of the firm, who is usually central, able to gather specific information not reachable for other key players and experienced in strategic decision-making (Priem, 1994), will be ultimately responsible for the firm's strategic decisions (Arendt et al., 2005). Accordingly, in order to untangle the first part of the *managerial complacency*, the degree of conformism/satisfaction with the organization's results, we use a single-item measurement based on the CEOs of the firms. We do so by directly asking them for their level of satisfaction with the results obtained by the organization regarding their prior expectations through a Likert scale from 1 to 5, where 1 = '*highly unsatisfactory*' and 5 = '*highly satisfactory*'. This measure has been analogously used in the literature by several scholars with the aim of comparing current outcomes with initial expectations (e.g., Carree & Verheul, 2011; Cooper & Artz, 1995) and to analyze different grades of commerce satisfaction (e.g., Peterson & Wilson, 1992; VandenHeuvel & Wooden, 1997).

Concerning the second (or objective) part of the *managerial complacency* and following Buyl and Boone (2014), Greve (2008) and Moliterno et al. (2015) research among others (for a review, see Shinkle, 2012), in this study we consider that company's decision makers compare its results with peer firms that carry out the same activities – which is understood in the literature as '*social comparison performance feedback*'. In this sense, we consider the average sectorial performance as an aspiration level against which organizations assess their performance when they examine their actual performance. In addition, due to our sample is formed by medium-sized companies that potentially might suffer pressures from inertia, dominant logic and sectorial recipes, we state that most likely this sample will collect similar individual reference levels near the average (Lehner, 2000). Hence, this argumentation corroborates the use of '*social comparison performance feedback*' in our study. However, as

a robustness check we also used the '*historical performance feedback*' (full analyses are available from the authors upon request), a self-evaluation of the firm's performance commonly operationalized in the literature as the difference with the performance obtained by the firm in the previous year. Following prior research, we operationalize '*social comparison performance feedback*' as the firm's ROA minus the industry's median ROA (e.g., Buyl & Boone, 2014; Greve, 2007). ROA has been repeatedly used by managers to self-evaluate the performance of their firms, and consequently it makes sense to use this variable when assessing firm's performance feedback (Lant et al., 1992). Next, to be able to operationalize *managerial complacency* we calculate quintiles of this objective part. Consequently we generate a 5-points scale, where '5' would represent the maximum value = companies with an outstanding result with respect to their peers; meanwhile '1' would show the minimum value = companies with very poor performance concerning the average firms of the sector.

Finally, we subtract the second part (or objective data) from the first part (or 'subjective' data) in order to obtain the overall value of the variable. Consequently, *managerial complacency* will range from '-4' (when the lowest CEO's levels of satisfaction with firm's results are obtained while getting the highest objective levels of firm's relative performance) to '4' (when the highest CEO's levels of satisfaction with firm's results are obtained while reaching the lowest objective levels of firm's relative performance) and will be expressed as follows:

Managerial complacency = *'subjective' data – 'objective' data*

where, 'subjective' data = *CEO's level of satisfaction with the general course of the company*

'objective' data = *company's performance relativized by the sectorial mean*

Dependent variable (2): '*organizational change behavior*'

The study of the effects of performance feedback on organizational strategic behavior has drawn the attention of numerous research (for a review, see Shinkle, 2012). However, despite its extensive evaluation (e.g., Chatterjee & Hambrick, 2011; Cyert & March, 1963; Greve, 2003), scholars do not appear to come to an agreement in terms of reporting a homogeneous evidence. One of the causes of such results may be grounded on the use of distinct or, even more remarkably, distal variables of performance feedback consequences (Ketchen & Palmer, 1999; Shinkle, 2012) as can be

risk-taking, innovation, R&D expenditures, etc. (Chatterjee & Hambrick, 2011; Chen, 2008). Following this argumentation, some authors such as Holmes et al. (2011) and Schillebeeckx et al. (2016) have questioned the use of these variables due to its difficulty and distance to reflect the decisions that organizations' key decision makers actually make based on organizational performance feedback.

Consequently, with the aim of solving this situation and reducing the noise in the analysis of our hypotheses, in this study we propound to measure the *organizational change behavior* through the managerial *intention to change* (cf. Greiner & Bhambri, 1989; Sánchez-Peinado et al., 2010) instead of with the *actual, realized change.* This point of view is not new in the literature, as Schillebeeckx et al. (2016) do something similar by analyzing the *preference to collaborate* instead of *actual collaboration*, stating that "preferences that do not result in established ties remain hidden from investigation so that existing ties are a poor proxy for tie-formation intention" (Schillebeeckx et al., 2016, p. 1494). Using the same logic, Buyl and Boone (2015) go back one step in the casual change and use the *executives' exploratory attention* instead of *actual search behavior*; similarly, Holmes et al. (2011) criticize the poor use of *risk* because of the lack of attention to the decision makers' *risk perception*. In addition, the use of the *intention to change* in place of the *actual change* allows collecting a broader and richer understanding of the *organizational change behavior* (as opposed to, e.g., only changes in specific investments such as R&D) due to the possibility of analyzing a higher number of domains or categories of change (see below). In this sense and following a procedure similar to the one proposed by Hambrick et al. (1993), in the present study we calculate the variable *organizational change behavior* using a set of six items focused on different strategic options that configure the corporate strategy of an organization, including both scope (*internationalization; market penetration/consolidation; and diversification*) and growth methods (*organic growth; strategic alliances; and mergers & acquisitions*).

As carried out by the authors, to obtain the information about the organization's *organizational change behavior* we directly asked CEOs to define the importance of those six strategic options or categories during the last two years (representing the current corporate strategic actions) and among the following two years (representing the future/intended corporate strategic actions). To facilitate the analysis, for every period, they just had to select the options that got a 'very low' ('= 1')

and a 'low' ('= 2') importance under their understanding, as well as a 'high' ('= 4') and 'very high' ('= 5') relevance[6]. Accordingly, we codified the two remaining options (in every period) as 'medium/neutral' ('= 3') importance. Next, we calculated the sum of the absolute differences between the current and future/intended corporate strategy. In particular, this sum would reach higher values in case that the strategic options were categorized in an opposite way for the present and future[7]. However, it would reach lower values when the different strategic options were categorized similarly in both terms. Subsequently, we divided this result by the maximum score of absolute differences that could be obtained (12). Hence, the *organizational change behavior* will achieve its maximum value (1) when the CEO of the company aims to modify the current strategic pursued actions (both in terms of scope and growth methods) in the maximum possible value; meanwhile, this variable will reach its minimum value (0) when the CEO of the firm wills to persist in the future with (exactly) the same combination of corporate strategic options currently followed.

$$\textit{Organizational change behavior} = \Sigma(ABS[p_{i\text{-}current} - p_{i\text{-}future}]) \,/\, MAX(\Sigma(ABS[p_{i\text{-}current} - p_{i\text{-}future}]))$$

where, $p_{i\text{-}current}$ = *value of the 'i' current corporate strategic action*

$p_{i\text{-}future}$ = *value of the 'i' future/intended corporate strategic action*

Independent variables: *'Functional and educational diversity'*

Respondents were first provided with a definition of a TMT: 'a group of senior managers that generally make decisions that are important to the firm's future' (Amason & Sapienza, 1997; Papadakis & Barwise, 2002). Coming up next, we asked CEOs to identify and provide functional and educational information about those who had been members of their TMTs over the past three years. In particular, they individually differentiated TMT members among six functional categories: *'production'*, *'finance'*, *'human resources'*, *'marketing'*, *'R&D'* and *'international business'*; and among three main educational groups: *'business / economy / social sciences'*, *'sciences /*

[6] More particularly, we asked CEOs to identify the two options that had been/will be the most important for their respective companies, as well as the two options that had been/will be the least important ones. Among these selected options, we asked him/her to identify only one option, which had been/will be the most important, as well as one option that had been/will be the least important.

[7] Note that with this we mean that such value will not depend on the direction of the scope (or growth methods), i.e., a CEO who intends to increase the currently low level of internationalization (or strategic alliances) in his/her organization will have the same value as another CEO who wishes to decrease his/her organization's currently high level of internationalization (or strategic alliances).

engineering' and *'humanities / others'*. Functional categories were selected following previous studies such as Auh and Menguc (2005; 2006), Lant et al. (1992), Musteen et al. (2006) and Naranjo-Gil and Hartmann (2006). Meanwhile, educational categories imitated the ones beforehand used by Michel and Hambrick (1992) or Naranjo-Gil and Hartmann (2006) among others.

Following prior research, functional and educational diversity was calculated using the Blau's (1977) index, which reflects the different types or categories there are in a dataset, and simultaneously takes into account how evenly its entities or individuals are distributed among those types or categories:

FD (or ED) = 1- Σp_i^2,

where, D = diversity (being FD = functional diversity, and ED = educational diversity)

and p_i = % TMTs in the "i" functional/educational category

This index has been widely used in the literature (e.g., Allison, 1978; Finkelstein and Hambrick, 1996) and ranges from 0 to 1. Thus, a perfectly homogeneous population would obtain a score of 0 (i.e., all the individuals would belong to the same category). Conversely, a perfectly heterogeneous population would get a score of 1 (i.e., there would be infinite categories with equal representation of the individuals in each category). That is to say, as the number of categories and its eveness increase, the maximum value of the diversity index score also increases – and so do its degree of heterogeneity . For instance, a population with four categories represented in the following way: 70%, 10%, 10% and 10% would score .48. However, a population with four categories evenly represented (i.e., representing 25% each category) would score .75. Meanwhile, a population with five categories evenly represented (i.e., representing 20% each category) would score .80.

Independent variable: '*TMT tenure*'

This variable was measured as the mean number of years of employment in the firm as TMT members over the past three years. Several alternative measures of managerial tenure were considered, including *tenure in the firm as TMT member or not* and *tenure in the industry as TMT member of this or other companies*. Tenure in the firm as TMT member was adopted here because it was the tenure variable most highly

correlated with other tenure measures, hence serving as a central indicator of the different tenure possibilities. Regardless, the other tenure options produced patterns of results that were very similar to those reported in our study.

Control variables

CEOs are distinguished by their diverse experiences and vast preparation to make complex decisions (Priem, 1994). Consequently, they are typically considered as central actors in strategic decision-making processes. However, they unusually act alone but interact with the other members of the TMT in order to take strategic decisions and plan the future course of the organization (Tang & Crossan, 2016). That is to say, decision-making processes do not just involve the CEO of the firm but the TMT members, whose participation will also influence firms' actions (Hambrick, 1994; Hambrick & Mason, 1984). On top of that, several studies have pinpointed the importance of internal forces of the organization such as power and political structures, economies of scale, sunk cost, etc. in limiting decision-making actions. In the same vein, external forces to the organization such as competitors' reactions, bargaining power of suppliers, etc. has also been pointed as potential influencers to organizational strategic change (e.g., Hannan & Freeman, 1989; Lant et al., 1992; Tushman et al., 1986). Regarding this research stream, company- and industry-level factors should also be considered to understand strategic decisions. Hence, for the sake of completeness in our study we include control variables at the managerial-level, at the company-level, and at the industry-level.

To do so, we distinctly differentiate between both analyses performed in this research. Thus, for the first one, where the relationship between *managerial complacency* and *organizational change behavior* is assessed (Hypothesis 1) we control for '*TMT size*', '*TMT average age*' and '*TMT members with university studies*' at the managerial-level; for '*size of the organization*', '*age of the organization*' and '*number of additional businesses*' at the company-level; and for '*industry innovation intensity*' at the industry-level. Meanwhile, for the second one, where the relationship between the TMT characteristics and *managerial complacency* is evaluated (Hypothesis 2, 3 and 4), we control for exactly the same variables at the managerial-level and at the industry-level; however, at the company-level we do not control for '*age of the organization*' and '*number of additional*

businesses' for not considering them potentially influential to the *managerial complacency* (which, to some extent, may be considered as more managerial-related than firm-related) and to potentially avoid that our model was vitiated by the accumulation of (unrelated) variables.

At the managerial-level we focus our attention on TMT characteristics including the CEO due to, as previously stated, both actors will be responsible for firm's strategic decision-making processes (Hambrick, 1994; Hambrick & Mason, 1984; Tang & Crossan, 2016). '*TMT size*' shows the total number of executives that are part of the TMT and therefore are taken into account by the CEO for strategic decision-making. Besides, Cho and Hambrick (2006) consider TMT size as an important covariate of executive attention which might closely be associated with perceptions and change concepts. '*TMT average age*' contains the average number of years of the organization's TMT members. This variable helps to predict individuals' non-work-related experiences (Yang & Wang, 2014). Thus, people of a similar age will have experiences in common and will share comparable attitudes and beliefs (Rhodes, 1983) which may introduce bias into their perceptions, thoughts and decision-making processes. Additionally, managerial age may also influence organizational strategic changes (Elbanna et al., 2013) in such a way that organizations composed by younger (and more energetic, open to accept higher risks, etc.) TMT members may be more prone to initiate changes (Hambrick & Mason, 1984). Finally, '*TMT members with university studies'* represent the percentage of TMT members who has higher educational studies. This variable is regularly associated with more favorable attitudes toward change (e.g., Bantel & Jackson, 1989; Hambrick & Mason, 1984), which may facilitate the predisposition of CEOs to foster larger changes. Likewise, highly educated individuals further tend to be more efficient at tacking huge quantity of information, which may affect their ability to generate more complete interpretations of the reality (Day & Lord, 1992; Starbuck & Milliken, 1988).

At the company-level we control for '*size of the organization*' measuring the average company's operating income as several other scholars did in prior studies (e.g., Cho & Hambrick, 2006). We account for this variable as larger organizations might have more organizational slack to engage in exploratory activities (Lavie et al., 2010) and to meticulously analyze processes of change (Boeker, 1997). At this level, we

also control for *'age of the organization'*, which is calculated as the total number of years since the firm was founded. In particular, we account for this variable as several authors such as Sánchez-Peinado et al. (2010) have argued that it might negatively affect the probability of undertaking strategic changes due to elder companies are characterized by having consolidated routines and practices that hinder the prospects of change (Hannan & Freeman, 1989). Finally, we take into account *'number of additional businesses'*, that is to say, the number of businesses that the firm has apart from its main activity. This variable is collected due to its close relationship with executives' search behavior (Carter, 1998). In fact, the literature has repeatedly stated that diversified firms have higher levels of risk tolerance, which in turn boosts strategic change and seizes business opportunities (e.g., Kihlstrom & Laffont, 1979). However, diversification may also promote complexity and generate difficulties to the CEO in order to control, influence and address strategic actions (Heese, 2015).

Finally, at the industry-level, we include '*industry innovation intensity*' (operationalized as the industry average of organizations' R&D expenses divided by its sales) to capture the industry's average degree of innovation, as a proxy for environmental dynamism, as this most probably affects strategic change (Cohen & Levinthal, 1990). Moreover, innovation is argued to be closely related to both external knowledge access and internal learning capacity (Tsai, 2001), therefore likely affecting the perceptive capacity of managers.

2.4. RESULTS

The values of the means, standard deviations and correlations for all variables included in the analyses are presented in Table 2 (see below). We tested our hypotheses using multiple hierarchical regressions (see below, Table 3 and Table 4). We also checked for the presence of multicollinearity in our analyses, founding variation inflation factors (VIF) below 2.5 for all variables (analyses available from the authors on request).

Table 2. Descriptive statistics and correlation matrix

Measures	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12
Dependent variables														
1. Organizational change behavior	.3527	.1785	1.00											
2. Managerial complacency	.3548	1.53	–.182*	1.00										
Independent variables														
3. TMT functional diversity	.7375	.1203	.205*	–.072	1.00									
4. TMT educational diversity	.3765	.2283	.286***	.080	.003	1.00								
5. TMT tenure	9.48	7.10	–.339***	.179*	–.127	–.175*	1.00							
Control variables														
6. Industry innovation intensity	1.22	.7736	.072	.090	.185**	.120	–.002	1.00						
7. Size of the organization	31820.67	72234.13	.172	–.209**	.003	.142	–.169*	.041	1.00					
8. Age of the organization	37.20	28.18	.084	–.215**	.159*	–.056	.178**	.088	–.023	1.00				
9. Number of additional businesses	3.03	2.28	.026	–.209	–.054	.012	.071	.190	.378**	–.011	1.00			
10. TMT size	7.40	6.68	.116	–.015	.091	.032	–.315***	–.032	.264**	.091	.293*	1.00		
11. TMT average age	42.54	6.36	–.059	–.133	.050	.056	.418***	.021	.140	.286***	.191	–.041	1.00	
12. TMT members with university studies	70.09	42.16	.315***	.116	–.001	.370***	–.306***	.239***	.209**	.057	.095	.073	–.135	1.00

N = 137
$^{*}p < 0.1$; $^{**}p < 0.05$; $^{***}p < 0.01$ (two-tailed)

Source: Prepared by the authors.

2.4.1. Hypotheses tests

The present study includes two differentiated analyses. In the first one, and due to the lack of results concordance on organizational behavior research, it is proposed to add managerial perceptions when determining the strategic response of organizations to performance feedback and more specifically, to test the effect of *managerial complacency* on *organizational change behavior* (see Table 3). In the second one, and taking one step back, the attention is focused on the influence that executives' characteristics present in decision-making processes, and in particular in determining the resulting level of *managerial complacency* (see Table 4).

Model 1 of Table 3 includes control variables only. As can be observed, these results seem to point out that firms' change behavior will be higher the younger the organizations are ($B = -.361$; $p < .1$), the less additional business they have ($B = -.495$; $p < .05$) and the more superior studies their TMT members hold ($B = .423$; $p < .05$). These results are not surprising but follow previous predictions. Thus, older companies, generally characterized by having consolidated routines and practices, will probably hinder change prospects (Hannan & Freeman, 1989). Meanwhile, the rise of the number of additional businesses within an organization, usually associated to a greater complexity, will diminish the influence and power of the managers in taking strategic action (Heese, 2015). Finally, higher educational levels, often related to more efficient information processing (Day & Lord, 1992), will be associated to more favorable attitudes toward change (Bantel & Jackson, 1989).

In Model 2 (Table 3) we include the *managerial complacency* in the analysis. Our findings indicate that there is a direct significant negative effect of this variable on the *organizational change behavior* ($B = -.510$; $p < .001$). Thus, we are able to support our hypothesis (H1), which anticipates that organizations are prone to change more substantially when facing low managerial levels of *complacency* with firm's results, disregarding the sign of the objective performance obtained by the firm – which, however, has precisely (and almost exclusively) guided prior BTF-inspired research (Lawrence, 1997; Ocasio, 1997). Obtaining these results suggest that the appending of managerial judgments to the equation will help to shed light to the understanding of organizations' adaptive processes and to improve the knowledge about organizational

behavioral attention and reaction present in the literature (for a recent review, see Shinkle, 2012). In the discussion section, we extensively come back to this finding.

Table 3. Results of linear regression analysis (1)

Measures	Model 1 Control variables	Model 2 Indep. Variable
Industry innovation intensity	– .079	– .144
Size of the organization	.338	.271
Age of the organization	– .361*	– .332**
Number of additional businesses	– .495**	– .670***
TMT size	.150	.090
TMT average age	.061	.062
TMT members with university studies	.423**	.446**
Managerial complacency		– .510***
R^2	.387	.575
Adjusted R^2	.216	.427
R^2 change	.387*	.188***
F-value	2.259*	3.888***

N = 137
Dependent variable: Organizational change behavior
*Standardized coefficients are shown; *p < 0.1; **p < 0.05; ***p < 0.01 (one-tailed)*

Source: Prepared by the authors.

Hypotheses 2, 3 and 4 are tested in Table 4. Model 1 of Table 4 incorporates control variables. Among them, only the size of the firm seems to significantly and negatively affect the level of *managerial complacency* (B = -.228; p < .05). However, we previously established that bigger firms would have more available resources to engage in exploratory activities (Lavie et al., 2010) and to carefully analyze processes of change (Boeker, 1997), and therefore, we argued that the size of the organization should be positively related to more complete interpretations of the reality. A potential explanation of these results could be the greater levels of complexity and the more predictability, rigidity and lack of flexibility present in the behavior of such firms (Quinn & Cameron, 1983), which could therefore generate a larger tendency towards inertia and poorer strategic analysis (Boeker, 1997).

Models 2, 3 and 4, for their part, are responsible for showing the sequential introduction of TMT functional diversity, TMT educational diversity and TMT tenure respectively in the analysis.

Table 4. Results of linear regression analysis (2)

Measures	Model 1 Control Var.	Model 2 Indep. Var. 1	Model 3 Indep. Var. 2	Model 4 Indep. Var. 3	Model 5 Total effect
Industry innovation intensity	.127	.164	.141	.105	.151
Size of the organization	–.228**	–.229**	–.211*	–.203**	–.198*
TMT size	.008	.014	–.017	.076	.054
TMT average age	–.108	–.107	–.171*	–.212**	–.237**
TMT members with univ. studies	.102	.106	.043	.167	.037
TMT functional diversity		–.112			–.172*
TMT educational diversity			.074		.143
TMT tenure				.279***	.259**
R^2	.098	.117	.118	.153	.212
Adjusted R^2	.058	.066	.066	.106	.145
R^2 change	.098**	.019	.001	.035***	.059**
F-value	2.436**	2.309**	2.239**	3.284***	3.135***

N = 137
Dependent variable: Managerial complacency
*Standardized coefficients are shown; *p < 0.1; **p < 0.05; ***p < 0.01 (one-tailed)*

Source: Prepared by the authors.

Meanwhile, Model 5 introduces all these variables together and thus, shows the results for hypothesis 2, hypothesis 3 and hypothesis 4. In hypothesis 2 (H2), we test the influence of TMT functional diversity on the *managerial complacency*. Our findings indicate the existence of a significant negative effect (B = -.172; $p < .1$; Model 5), which gives us evidence to support this hypothesis. Consequently, we can argue that the variety of job related knowledge will be related with less complacent evaluations which, as previously stated, will be given by the greater breadth of perspectives and higher levels of information computation generated within these teams (Wiersema & Bantel, 1992; Yokota & Mitsuhashi, 2008). The effect of TMT educational diversity on the *managerial complacency*, i.e., hypothesis 3 (H3), is also tested in Model 5. However, no significant results are found. Thus, the findings of this analysis suggest that the educational diversity present in the background of a team does not affect its level of *complacency*. Hypothesis 4 (H4) controls the effect of TMT tenure on the *managerial complacency*. Our findings (also in Model 5) indicate the existence of a direct significant positive effect (B = .259; $p < .05$), which allows us to support this hypothesis. In particular, this result suggests that long firm services will be associated with more

conformist and complacent assessments which, as earlier mentioned, will be generated due to the more biased analyses, less number of perspectives and opinions, less information processing about the environment and larger levels of satisfaction hold by these teams (Hambrick & Fukutomi, 1991; Katz, 1982; Miller & Friesen, 1984).

2.4.2. Additional analyses and robustness checks

In this study we argue that performance feedback consequences will be better understood through the analysis of the *managerial complacency*, a cognitive variable which combines the traditional (objective) measurement of firm's performance carried out by the BTF-inspired literature when determining the strategic response of organizations, with the executives' perception (or valuation) of these results. To operationalize this variable and following Buyl and Boone (2014), Greve (2008) and Moliterno et al.'s (2015) research, we consider that company's decision makers determine the level of (objective) results reached by a firm by comparing its performance with the average sectorial performance, i.e., with the average performance obtained by the firms that carry out the same activities – or what is called '*social comparison performance feedback*' (this aspect is discussed in more detail in methods section). Particularly, as our sample is formed by medium-sized companies which potentially suffer pressures from inertia, dominant logic and sectorial recipes, we can corroborate the correctness of using reference levels near the industry mean in this study (Lehner, 2000).

Nevertheless, for the sake of robustness we redid the analysis using the performance obtained by the firm in the prior year as the aspiration level against which the organization compares its actual performance – or what is also understood in the literature as '*historical performance feedback*' (for a review of papers which use one measure or another, see (Shinkle, 2012). The results obtained follow the same line, however they are slightly less convincing – which is not surprising given the prior reasoning for the use of the '*social comparison performance feedback*' according to our sample characteristics. Particularly, for our first analysis we still found a direct negative effect of the *managerial complacency* on the *organizational change behavior* (analyses available from the authors on request), though this effect was lower both in

effect size and significance level as compared with the reported one (B = -.327; $p < .1$; adjusted R^2 = .289 versus prior results: B = -.510; $p < .001$; adjusted R^2 = .427).

On the other hand, for our second analysis we also found similar results (full analyses can be requested from the authors), though with a lower effect size and significance level (TMT functional diversity B = .037; no significant; TMT educational diversity B = .093; no significant; and TMT tenure B = .244; $p < .05$; adjusted R^2 = .149 versus prior results: TMT functional diversity B = -.172; $p < .1$; TMT educational diversity B = .143; no significant; and TMT tenure B = .259; $p < .05$; adjusted R^2 = .145).

Therefore, despite no big discrepancies from the prior reported models can be raised, we detect a better behavior of our results when using the '*social comparison performance feedback*' instead of the '*historical performance feedback*' in configuring the *managerial complacency*.

2.5. DISCUSSION

In this study we aimed to deepen the knowledge upon the intermediate hidden mechanisms whereby performance feedback cues generate specific reactions in organizations and specifically, to accentuate the relevance of evaluating the effects of executives' perceptions and cognitions in these strategic decision-making processes. Using a dataset comprising both archival and questionnaire information of 137 Spanish medium-sized firms, we found support for our main hypotheses, therefore generating a very interesting pattern of results. In particular, our findings suggest that performance feedback consequences will be better understood through the analysis of the *managerial complacency*, a cognitive variable which combines the traditional (objective) measurement of firm's performance carried out by the BTF-inspired literature when determining the strategic response of organizations, with the executives' perception (or valuation) of these results. More specifically, *managerial complacency* is found to have a negative effect on *organizational change behavior*. This result is in line with our postulations, through which we anticipated that firm's strategic change would be enhanced (just) in front of low managerial levels of *complacency* with organizational results, disregarding the sign of the objective performance feedback obtained by the firm – which, however, has precisely (and

almost exclusively) guided prior BTF-inspired research (Lawrence, 1997; Ocasio, 1997). Thus, our findings infer that perceptions will also drive firms' strategic behavior, which will not be merely based on 'visible' measures of performance feedback (Lawrence, 1997; Ocasio, 1997).

Reinforcing our study, Sánchez-Peinado et al. (2010, p. 106) theoretically point out that "organizational strategic change is intimately related to perceptions and more specifically to the degree of *complacency* of those responsible for strategic decisions, which filter and interpret the situations and realities to which they objectively face". This argument is also supported by Ocasio's (1997) research, which advocates that managers decide about the necessity to react to particular cues not only on the basis of what they objectively know, but also based on what they subjectively perceive and believe. In fact, this author also states the importance of increasing the knowledge of how interpretations become manifested in choices. In the same vein, Labianca et al. (2009) and Shinkle (2012) argue that as performance feedback theory is essentially a cognitive theory, a more comprehensive model of how decision makers assess organizational performance and respond to it must go beyond this objective assumption, which will be essential to advance performance feedback theory (Greve, 2003).

According to this argumentation, organizational behavior literature seems to agree in determining that the lack of analytic precision when predicting performance feedback effects (and especially the non-inclusion of perceptual variables) might be one of the main causes for the existence of alternative perspectives in the literature (Greve, 2003), where the BTF (Cyert & March, 1963), the most prominent perspective, proposes that decision makers will pursue strategic change behaviors (only) after perceiving a negative performance feedback; but where other perspectives such as the '*organizational slack*' perspective (Daniel et al., 2004), '*capability cue*' perspective (Chatterjee & Hambrick, 2011) or the *threat-rigidity*' perspective (Staw et al., 1981) suggest just a contrary relationship, proposing that these strategic change behaviors will be promoted (only) after receiving a positive performance feedback. Thus, despite the broad empirical support found for each of these perspectives (Shinkle, 2012), no comprehensive solution has been achieved to fully understand when and how executives make the decision to engage in organizational change.

As previously mentioned, to solve this situation in this study we propose to use a different approach of performance feedback which, guided by BTF original research view, has been almost invariably understood as an objective measurement of the results obtained by a firm – and operationalized as the difference between firm's current performance and its peers/historical results (Lawrence, 1997; Ocasio, 1997). In particular, we propose to use the *managerial complacency* with which it is achieved that apart from objective performance figures, perceptual variables are also taken under consideration in strategic decision-making processes. Doing so, our findings suggest that the ambiguous effects proposed by the different perspectives might not be confronted; but rather form part of the same whole. Next, we discuss some of them: (1) the BTF describes the generation of a '*problemistic search'* situation when firms confront a negative performance feedback, which makes the firm to start initiating changes to revert the situation in order to achieve again a correct fit between the organization and the environment[8]. However, in our study these theoretical grounds will not be totally true due to, as previously stated, manager's perceptions will be also responsible for driving strategic change and a (mere) objective negative performance may not be enough incentive to act (Sánchez-Peinado et al., 2010). Consequently, we argue that in spite of a firm obtains a poor objective performance, whether managers present an excess of satisfaction or *complacency* with these results, lower levels of strategic change or stagnation will be generated. In particular, we anticipate that this situation will be done by the great acceptance or conformism with organizational results which will produce that managers assume them as better than actually are and they are not able to perceive the necessity to follow any strategic change behavior to 'solve' the situation. Some of the circumstances that might provoke this situation could be, for instance, the unawareness of existing potential dangers over performance, expected restructuration in the firm or the market/customers structure, known business cycles, the prioritization of non-economic objectives (e.g., given that 88.8% of Spanish companies are family firms (Instituto de la Empresa Familiar, 2015), some managers might be inclined to prioritize non-financial objectives, such as socio-emotional wealth

[8] Hence, the underlying idea is that this 'attainment discrepancy' leads to a state of dissatisfaction (usually measured by objective levels of firm's relative performance), which subsequently drives managers' intention to adapt the organization's current strategies in an effort to fix the problem (also called '*problemistic search'*).

preservation (Martin & Gomez-Mejia, 2016)), etc. Meanwhile, (2) the '*organizational slack*' perspective explains that positive performance feedback provides new resources (or a slack) to the organization, which facilitates the search for new opportunities. Similarly, following our precepts although a positive performance feedback might generate this slack and therefore help to boost strategic change, we should also look at the perceptions of the managers with these results. Then, it could be the case where managers are complacent (or not dissatisfied) with the results achieved by the company and therefore, they would not have enough incentive to act (Sánchez-Peinado et al., 2010). For its part, (3) the '*threat-rigidity*' perspective argues that when facing a threat (such as a negative performance feedback), organizations decrease their change and search behavior. However, in order to perceive this threat and start acting, regarding our arguments managers should hold a low level of *complacency* with these results, which will be considered as a turning point. That is to say, the objective performance will be a sufficient but not necessary condition. Finally, (4) the '*capability cue*' perspective stipulates that previous performance is seen by organizations' managers as a 'cue' for their capability – i.e., as an indicator of their overall level of ability. Thus, this perspective proposes that these 'cues' will either encourage or discourage managers' self-confidence and in turn their inclinations to engage in search and change-related behavior. However, as previous perspectives, this one is also based on objective values of performance feedback to determine the promotion of strategic change. Consequently, we argue that its line of reasoning will not be (completely) valid as cognitive patterns will also affect organizational behavior[9].

Note that this research is not interested in supporting one theoretical perspective or another, but in providing a common frame of reference to analyze performance feedback consequences. With this aim, we propose that objective data and subjective interpretations jointly affect strategic change, and that organizational decision-making processes cannot be unraveled when managers' cognitions and interpretations are not taken into account.

[9] Note that further explanation of this perspective is provided in Chapter 3 where cognitive and objective cues are regressed independently to determine strategic change.

In the second part of our analysis, we analyze the influence of executives' characteristics on the resulting level of *managerial complacency*. As expected, we found significant and confirmatory results for the proposed effects of TMT functional diversity and TMT tenure on *managerial complacency*. Nevertheless, we did not find significant results for TMT educational diversity. Following prior literature, we can argue that the educational diversity present in the background of a team increases the breadth of perspectives, boosts the information computation, promotes the sharing of ideas and information, and improves the awareness of the current course of action (Cho & Hambrick, 2006; Haleblian & Finkelstein, 1993; Hambrick & Fukutomi, 1991; Katz, 1982). Then, by its own definition, TMT educational diversity should have a negative relationship with *managerial complacency*[10] – as TMT functional diversity shows. However, we do not find significant results for this interaction. One possible explanation of the lack of significant results shown by this variable could be grounded on analytical aspects. Thus, TMT diversity could not produce a relationship with neither high nor low *managerial complacency*, but a relationship with realism. This value is represented by a '0' in the *managerial complacency* (see measures section) and therefore, could be the reason why this variable does not show a stronger significance. To accurately discover this assumption, scholars could rescale the *managerial complacency* variable and/or distinguish between different levels or groups of education.

2.5.1. Contributions

With this research, we mainly contribute to the extant literature with a number of contributions. First, we contribute to the performance feedback literature by denouncing the (traditional) common practice to proxy performance feedback by simple comparisons of prior performance with industry mean performance and/or the organization's historical performance. This assumption is supported by prior scholars such as Jordan and Audia (2012) and Ocasio's (1997) research which propose that these evaluation processes will be affected by individual perceptions and cognitions of the organization's main decision makers – that therefore will work as perceptual filters of reality. Cho and Hambrick (2006) similarly sustain this statement by arguing that

[10] Meanwhile, contrary effects are theorized and found for TMT tenure (see results section).

managers will differ in how they perceive the stimuli around them which, in the last instance, will be reflected in strategic differences (Hambrick & Mason, 1984). Hence, we argue that this proposition is not new for the literature but despite having been theoretically highlighted on numerous occasions, it has rarely been under direct scrutiny in prior research (Hambrick, 1994; Jordan & Audia, 2012; Lawrence, 1997; Ocasio, 1997). In this study, we take this call and introduce the level of the *managerial complacency* into the equation. Consequently, different interpretations of performance feedback will be able to be obtained, which may have important implications for some of the key predictions made by the conventional performance feedback research and thus, become source of reinterpretation of their expected responses. Based on our findings, we argue that the use of the *managerial complacency* in our analyses generates a better understanding of organizational behavior. Additionally, we anticipate that under this approach apparently contradictory perspectives of performance feedback literature may be reconciled. In sum, our study suggests that objective performance feedback by itself does not properly rule organizational behavior actions, but it needs to be interpreted and contextualized by the decision makers in order to generate more accurate predictions. Thus, with this research we propose a more nuanced understanding of how decision makers assess and respond to performance cues.

In the second place, our research also complements performance feedback literature with ideas from the *upper-echelons* research tradition, which emphasizes the relevance of managers' values, perspectives and experiences on strategic decision-making processes and organizational outcomes (Bantel & Jackson, 1989; Hambrick & Mason, 1984). However, to predict these variables the extant research has typically focused on managers’ observable characteristics of management teams (such as demographics or functional experiences) and has rarely considered managerial cognitions and perceptions explicitly – even though the latter are actually assumed to act as perceptual filters of reality and therefore could generate richer interpretations of the decision-making processes (Cho & Hambrick, 2006; Hambrick, 1994; Lawrence, 1997). Our study addresses this dearth of research by analyzing how managerial perceptions, and more specifically the *managerial complacency* with firm’s results, affect organizational strategic response. As a consequence, our findings allow us to further substantiate the explicative value of these variables (Cho & Hambrick, 2006; Hambrick,

1994; Lawrence, 1997) and cognitive implications for strategic choices (Herrmann & Datta, 2002).

2.5.2. Limitations and future research avenues

Like any research, ours does not remain free from limitations which similarly represent new research opportunities. In the first place, we intentionally focus our study on explaining the effects of performance feedback cues on *intentions to change* instead of on the *actual change*. As we discussed in the methods section, we do so due to this variable is much closer and appropriate to reflect the decisions that organizations' key decision makers will actually make based on organizational performance feedback (Holmes et al., 2011; Schillebeeckx et al., 2016). However, an interesting research avenue for future scholars could test whether these *intentions* (at the managerial level) are also reflected in *actual change* (at the company-level) or even in performance-related variables (also at the company-level). This presumes insights in the implementation process of strategic changes (Hailey & Balogun, 2002) and might require longitudinal data. Additionally, another fruitful research line could be obtained by assessing the *type* of change achieved. As previously explained, the variable *organizational change behavior* includes both scope (*internationalization; market penetration/consolidation; and diversification*) and growth methods (*organic growth; strategic alliances; and mergers & acquisitions*). However, this variable is calculated by the sum of the absolute differences between the importance given to each of these six categories in the present and in the future/intended strategy. Thus, we argue that to improve our findings we could report *actual change* based on these six categories or a group of them. In this way, for instance, a firm could present a high level of change based on an increase of market penetration/consolidation and organic growth. However, another firm could present a similar level of change but in this case based on internationalization and strategic alliances. Therefore, despite its similar meaning in terms of absolute change values, the first case would be more related to exploitative or inner solutions. Meanwhile, the latter would be more associated with exploratory or expansive actions[11].

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[11] In Chapter 3 we take up the challenge and through an exploratory analysis, we provide information about the magnitude, scope and direction of these intended strategic changes. However, because of pragmatic reasons (related to the availability of longitudinal data) no further analysis could be generated.

Second, following prior research (e.g., Greve, 2008; Chatterjee & Hambrick, 2011) we consider that company's decision makers assess firm's performance by comparing it with the average sectorial performance, i.e., we implicitly consider the industry mean as the aspiration level against which managers assess their organizations' performance. Accordingly, we calculated *managerial complacency*. Nevertheless, there is a growing literature which establishes that similar organizations or reference groups might influence one another more than the sectorial mean (Fiegenbaum et al., 1996; Labianca et al., 2009; Panagiotou, 2007; Short & Palmer, 2003). Thus, future research could focus its attention on these sets of individuals which in fact, might be different from prior levels of comparison. In particular, in this study we do not implement this approach due to two main reasons. The first one is related to the inability to obtain this data from our sample. Meanwhile, the second one concerns the fact that firms of our sample belong typically to mature sectors. These sectors usually generate strong pressure from inertia, dominant logic and sectorial recipes; thus we argue that in our sample there will be anyway many similar individual reference levels near the median (Lehner, 2000).

Third, in the organizational performance feedback literature several scholars have discussed that there could be a direct link between prior (objective) performance and satisfaction (e.g., Audia et al., 2000, Mahto and Khanin, 2015). Indeed, one illustration of the latter may be found in Cooper and Artz's (1995, p. 441) research where it is argued that "those who do better should feel better". If so, our results would lack of relevance as, *managerial complacency*, would present values close to '0' (see methods section to go into more detail) and thus would not be able to provide significant information. However, this circumstance is not sustained by several reasons. In the first case, because in practical research of organizational behavior the link between objective cues and satisfaction appears to be weak at best (Christen et al., 2006); and because many scholars have delved into this topic indicating that although firm's (objective) performance is found to be a determinant of satisfaction, a range of other factors such as expectations, demographic attributes, previous experiences, stakeholders' pressures, etc. will also influence this variable. And, in the second case, because our investigation presents significant interactions where *managerial complacency* is found to influence *organizational change behavior* ($B = -.510$; $p < .001$;

adjusted $R^2 = .427$) and likewise be affected by some TMT characteristics (TMT functional diversity B = -.172; $p < .1$; TMT educational diversity B = .143; no significant; and TMT tenure B = .259; $p < .05$; adjusted $R^2 = .145$).

The final point pertains to methodological issues. Thus, based on prior research and intuition (as for instance the previous difference shown by scholars between objective performance and satisfaction), further research could propose to test different regression models using performance cues and satisfaction in an individual way. Consequently, we suggest that potential interesting effects among performance feedback, satisfaction and organizational change could be found through mediation, moderation or even moderated mediation analyses and, therefore, generate relationships with more explanatory power. For instance, prior research such as Audia et al. (2000) tried to do something similar using the level of satisfaction as a mediator between past success and persistency in strategies. Indeed, incipient empirical tests provide initial support for the existence of a mediation relationship as evidenced by the positive and significant correlation between performance feedback and satisfaction (.371; $p < .001$; full analyses are available from the authors upon request) and the negative correlation between satisfaction and organizational intended change (-.124; no significant; analyses available from the authors on request)[12,13]. Further research could appropriately test these propositions in order to clarify the existent relationship among these variables[14].

In sum, our study represents one of the first studies in performance feedback research which incorporates both objective performance figures and managerial perceptions to determine the strategic behavior shown by a firm. Thus, we complement conventional BTF precepts helping to broadly analyze its predictions and the ambiguous results existing in the literature. With this research, we hope to set the stage for many others to come and open the range of considered options in this issue.

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[12] This information may be obtained from Table 5 (Chapter 3).
[13] Additionally, in Chapter 3 we found a negative and significant regression coefficient of *CEO's satisfaction with performance* on the *magnitude of intended strategic changes* (-.309; $p < .1$; Table 6, Model 2; Chapter 3).
[14] Indeed, this suggestion for future research acts as the foundation of Chapter 3, where these relationships are checked.

CHAPTER 3:

CEO satisfaction and intended strategic changes: The moderating role of objective performance cues

3.1. INTRODUCTION

"Change before you have to."

(Jack Welch)

Despite Jack Welch's oft-quoted statement, one of the most crucial drivers of organizations' strategic changes cited in literature are cues about (declining) performance levels (e.g., Kacperczyk et al., 2015). Heavily influenced by the *Behavioral Theory of the Firm* (Cyert & March, 1963), a substantive stream of scholars has studied the effects of 'performance feedback' on organizational behavior. Arguably, the most prominent proposition in this research stream is that an organization's decision makers (its managers) will (only) pursue (strategic) changes when performance falls below preset aspiration levels (e.g., Greve, 2003; 2008). The underlying idea is that such 'attainment discrepancy' leads to dissatisfaction, which subsequently drives managers' intention to adapt the organization's current strategies in an effort to fix the problem (*'problemistic search'*; Shinkle, 2012).

However, despite the dominance of the BTF-influenced thinking, scholars have also developed contradictory theoretical perspectives, and found mixed evidence (Bowen et al., 2010). For instance, Jordan and Audia (2012) theorized that a failure to meet preset aspiration levels might not lead to a higher intention to change, if managers choose to assess their performance as satisfactory in a search to enhance their self-image. Similarly, Labianca et al. (2009) proposed and found that strong performers sometimes have higher intentions to change, if they actively strive for even higher performance levels in the future (see also Jack Welch's quote above). These equivocalities emphasize the need for studies that scrutinize 'attainment discrepancy' and its impact on subsequent organizational behavior in more detail (Jordan & Audia, 2012). As performance feedback theory is essentially a cognitive theory (Labianca et al., 2009; Shinkle, 2012) we contribute to this issue by digging deeper into the *micro-processes and mechanisms* that underlie the translation of 'attainment discrepancies' into subsequent actions. We do this in three ways: (1) by studying *CEOs' intention to change* as an outcome variable instead of actual strategic changes at the organization-level, (2) by assessing *CEOs' satisfaction with performance* as a direct indication of 'attainment discrepancy', and (3) by incorporating the *organization's performance compared to the*

industry as a *contextual* variable that interacts with CEOs' satisfaction to affect change intentions.

Firstly, prior performance feedback research has mostly studied outcome variables which directly point to actual, realized organizational change behavior (e.g., Chatterjee & Hambrick, 2011; Chen, 2008; Greve, 2003). However, inspired by Mintzberg's (1978) fundamental distinction between intended and realized strategy, and in analogy with Schillebeeckx et al.'s (2016, p. 1494) claim that "existing ties are a poor proxy for tie-formation *intention*", we argue that actual, realized organizational change might not be the best assessment of managers' *inclinations* towards strategic change. Indeed, the strategic change literature has emphasized that the successful implementation of intended strategic changes is complex and strongly context-driven (Hailey & Balogun, 2002). By going back one step in the causal chain and studying *CEOs' intentions to change* directly –and more in particular: the *magnitude* of the changes in the organization's current strategy intended by the CEO –, we are able to test the effects of 'attainment discrepancies' with less noise (Labianca et al., 2009; Lohrke et al., 2006; Schillebeeckx et al., 2016).

Secondly, the BTF in essence proposes that managers engage in change behavior when they are dissatisfied with results (because they fail to reach a preset aspiration level). In general, performance feedback scholars have tested this proposition by proxying aspiration levels by (a combination of) historical results and performance of organizations' peers (Shinkle, 2012; for an exception, see Lohrke et al., 2006). However, in practice many factors other than such objective (and visible) performance cues could affect organizations' aspiration levels – and, hence, 'attainment discrepancy'. For instance, Labianca et al. (2009) found that decision makers did not only account for their peers when comparing their performance to aspiration levels, but also for the performance of organizations to which they strive to be like in the future. In the same vein, Haleblian and Rajagopalan (2005) suggest that it is not appropriate to apply the same standard to determine aspirations for all organizations, as aspirations can themselves fluctuate across managers in varying organizations. To address this issue, in this study we follow Haleblian and Rajagopalan's (2005) suggestions to focus on *CEOs' satisfaction with performance* as a direct indication of their 'attainment discrepancy', and – in line with the BTF – we propose that the magnitude

of intended strategic changes will be higher the lower CEOs' satisfaction with performance. Put differently, we relax the implicit assumption in the extant performance feedback literature that 'attainment discrepancy' is based *only* on (objective) performance cues.

Thirdly, the latter also allows us to use objective performance cues – more in particular, organizations' performance compared to the industry – as a moderator. While the BTF would propose a universally negative relationship between CEOs' satisfaction with performance and subsequent change intentions, other theories and perspectives have suggested differently. For instance, high satisfaction with results could instigate self-confidence and efficacy beliefs and, subsequently, proactive behaviors such as strategic changes (Chatterjee & Hambrick, 2011; Haleblian & Rajagopalan, 2005; Mahto & Khanin, 2015). Conversely, high dissatisfaction with results might cause conservative behavior (Chatterjee & Hambrick, 2011; Staw et al., 1981). In an effort to reconcile these apparently contradictory perspectives, we propose that contextual cues at the organizational level might matter. In particular, the *organization's performance compared to the industry* indicates this organization's relative position in its industry (Kacperczyk et al., 2015) and serves as a signal of the adequacy of the organization's current strategies (Baum et al., 2005) as well as of CEOs' overall capabilities (Chatterjee & Hambrick, 2011). We expect that this contextual cue will interact with CEOs' satisfaction levels, and that the negative baseline effect of CEOs' satisfaction with performance on the magnitude of intended strategic changes will be less pronounced the higher the organization's performance compared to the industry.

We empirically test the model with data collected from 137 medium-sized Spanish firms for a four years' time window, using a combination of primary data (collected through a questionnaire) and secondary data (obtained from databases of firm's annual accounts and financial statements). Our results support our propositions. In line with the baseline prediction of the BTF, we find a negative direct effect of CEOs' satisfaction with performance on the magnitude of intended strategic changes. Moreover, we also find that this effect is moderated by performance compared to the industry, which underscores our proposition that the organization's objective performance serves as a contextual variable providing cues about the organization's and the CEO's overall efficacy. Extending the conventional performance feedback

theory, we find that the *combination* of subjective and objective performance cues provides the most explanatory power. Additionally, in exploratory post-hoc analyses, we more closely examined the *number, scope,* and *direction* of strategic changes intended by CEOs. The results of these analyses suggested that dissatisfied CEOs in a context of declining performance considered more contractive moves – which aligns with the BTF's idea of 'fixing' the problem that caused the 'attainment discrepancy' (cf., Greve, 2003). Satisfied CEOs in a context of high performance, conversely, were more inclined towards expansive moves – corresponding to the more proactive drive for change proposed by other scholars (e.g., Chatterjee & Hambrick, 2011; Haleblian & Rajagopalan, 2005; Labianca et al., 2009). Hence, these exploratory findings underscore once again the importance of integrating insights from different theories and perspectives when exploring the effects of performance feedback.

3.2. THEORY AND HYPOTHESES

3.2.1. Attainment discrepancy and CEOs' intention to change: The BTF-inspired view

In the extant literature, the dominant perspective used to explain managers' reactions to performance feedback is the *Behavioral Theory of the Firm*, which is based on the Carnegie School's concepts of bounded rationality and *'problemistic search'* (e.g., Cyert & March, 1963; March & Simon, 1958). Building on the premise that in their decision-making processes individuals are rationally constrained, scholars have explored firms' backward-looking learning from feedback on prior performance levels (Arrfelt et al., 2013; Chen, 2008; Gavetti et al., 2012). The main hypothesis in this stream of literature is that organizations' main decision makers are guided by '*attainment discrepancy*' – i.e., the gap between organizations' actual results and predetermined aspiration levels. Generally, it is expected that the higher 'attainment discrepancy' – i.e., the more performance is below the aspiration level – the more dissatisfied the organization's decision makers will be, and the more they will engage in '*problemistic search*' behavior where they attempt to find solutions to improve the poor results. *'Problemistic search'* generally involves deviations from the organization's main activities (Greve, 1998), such as strategic changes (Lant, 1992) or risk-increasing

strategies (Bromiley, 1991). In contrast, performance above aspiration levels – i.e., low levels of 'attainment discrepancy' – will fuel decision makers' satisfaction with these results, reducing their inclinations to change the current strategies (Chen, 2008; Gavetti et al., 2012).

While this is an intuitively appealing line of reasoning and several scholars have found a negative relationship between performance feedback and change behavior (Greve, 2008; Shinkle, 2012), other scholars have found opposing results (e.g., Bowen et al., 2010). One reason for these contrasting results might lie in the (imprecise) operationalization of the core concepts. For instance, many scholars focus on organizations' actual, realized strategic changes (e.g., Chen, 2008). However, as performance feedback theory is in essence a cognitive theory about the motives and behaviors of decision makers, it is more apt to focus on these decision makers' *planned* or *intended* behavior (Gavetti et al., 2012; Labianca et al., 2009). In this study, we follow the recommendations by Rajagopalan and Spretizer (1997) and Haleblian and Rajagopalan (2005) to differentiate cognitions (perceptions) from managerial intentions and actions, and to consider them as the antecedents of actual changes in the content of strategy. We, therefore, examine CEOs' *intentions* regarding strategic change, and more in particular the *magnitude of strategic changes the CEO intends to pursue* (cf., Haleblian & Rajagopalan, 2005), which depends both on the number of domains in which the CEO wishes to implement changes, and on the degree of change within these domains.

Second, scholars have almost invariably operationalized 'attainment discrepancy' as the gap between an organization's realized performance on the one hand and historical and/or peers' performance levels on the other hand (for a review, see Shinkle, 2012). The implicit assumption is thus that aspiration levels (and 'attainment discrepancies') are (only) based on objective and visible results – either of the organization itself or of its peers – and, by extension, that managers' motives to undertake changes are only – or most crucially – driven by such objective results. However, both practice and academic work – see, for instance, Labianca et al.'s (2009) work on '*striving aspirations*' or Fiegenbaum et al. (1996) theory on 'strategic reference points' – have made clear that many other factors also drive managers' aspiration levels, and, hence, their perceptions of 'attainment discrepancy'. We therefore propose to focus on an alternative indicator of 'attainment discrepancy', more closely connected

to managers' perceptions of and feelings about the realized results: their *satisfaction with performance*. Managers' satisfaction with performance can be seen as an 'a posteriori variable' that adds perceptual information to the interpretation of performance feedback that is not captured by the objective results of the organization itself or its peers (cf., Matho & Khanin, 2015).

Empirical research on satisfaction with performance has been reported primordially in literature on organizational behavior and human resource management, generally focusing on individual employees' (job) satisfaction, and arguing that this will affect these individuals' behavioral intentions and actual behavior (e.g., Cooper & Artz, 1995; Mahto & Khanin, 2015). In the organizational performance feedback literature, several scholars have also discussed satisfaction levels, generally arguing that there should be a direct link between prior (objective) performance and satisfaction (e.g., Audia et al., 2000; Mahto & Khanin, 2015), hence justifying the use of objective performance indicators as proxies for 'attainment discrepancy'. For instance, Cooper and Artz (1995, p. 441) argue that "those who do better should feel better". In a laboratory study, Audia et al. (2000) indeed found a strong first-order correlation (r = .56) between past success and participants' satisfaction with performance.

However, in organizational practice the link between objective performance feedback and satisfaction appears to be weak at best (Christen et al., 2006), suggesting that performance (only) might not represent a suitable proxy for 'attainment discrepancy'. Indeed, many scholars have identified several alternative determinants of satisfaction with performance, complementary to objective results (e.g., Audia et al., 2000; Garbuio et al., 2015; Michalos, 1986). For example, Carree and Verheul (2011) indicate that besides objective results, a range of other factors, such as individual goals, expectations, demographic attributes, previous experiences, the firm's age, pressures from stakeholders, etc., also influence managers' level of satisfaction with their performance. On the organizational level, Mahto et al. (2010) show that contingencies such as organizational identification, managerial commitment, and family involvement, also weigh on CEOs' level of satisfaction when they are assessing prior performance. Family involvement might be especially relevant, as family firms represent the majority of organizations in most countries, and owner-managers of

family firms are known to not only take into account financial results, but also outcomes related to the preservation of the socioemotional wealth of the owner-family members (Berrone et al., 2012; Martin & Gomez-Mejia, 2016).

Based on all of this, we argue that CEOs' satisfaction with performance emerges from more than solely objective (financial) results. We therefore propose to assess CEOs' satisfaction with performance as a more direct, perceptual indicator of 'attainment discrepancy' – i.e., of how CEOs *evaluate* and *interpret* the obtained results. It not only accounts for objective results, but also for all other factors that affect managers' interpretation of these results, and is hence a more pure indicator of 'attainment discrepancy'. In their theoretical framework on the effects of past performance on strategic change, Haleblian and Rajagopalan (2005, p. 84) exactly call for the use of such a direct perceptual measure of satisfaction to assess 'attainment discrepancy': "We believe, in contrast [to the standard assumption of homogenous aspiration levels across all firms (either industry performance or historical performance)], that aspirations can themselves vary across top managers in different firms. Hence, instead of using objectively determined aspiration level and applying the same standard to all firms, we recommend a perceptually based measure of satisfaction that allows for variations in managerial aspirations". Consequently, following the BTF's baseline logic we expect that the magnitude of strategic changes intended by CEOs will be inversely related to their satisfaction with performance. Put differently, we expect that the lower the CEO's satisfaction with the obtained results (i.e., the higher 'attainment discrepancy'), the more the CEO will be inclined to change the organization's current strategies, and hence the higher the magnitude of strategic changes envisaged by this CEO. We therefore propose the following baseline hypothesis:

Hypothesis 1. A CEO's satisfaction with performance is negatively related to the magnitude of the intended strategic changes being considered by this CEO.

3.2.2. The moderating role of performance compared to the industry

Though overall, we expect a negative association between satisfaction and the magnitude of strategic changes intended by the CEO, in their laboratory study Audia et al. (2000, p. 849) already argued that "the effect of satisfaction is more complex than

is generally thought". They found that when it came to strategic changes (or, conversely, strategic persistence), issues such as decision makers' self-efficacy, goal-setting behavior, and confidence in the effectiveness of the organization's current strategies also factored in (Audia et al., 2000). Haleblian and Rajagopalan (2005) echo these argumentations, urging scholars to account for managers' efficacy beliefs and strategic goals when studying the effect of past performance on strategic change. To address this issue, we propose to introduce a contextual moderator that might affect CEOs' feelings of self-efficacy, goal-setting, and confidence in current strategies when assessing their organization's performance, and that might in this way interact with satisfaction to affect CEOs' intentions to engage in strategic changes.

The organization's *performance compared to the industry* is a likely candidate in this matter. Evidently, it is related to CEOs' satisfaction with results, as higher performance compared to the industry should make CEOs feel better (more satisfied) about their organization's results (see above). This is probably why many performance feedback scholars simply use performance compared to the industry as a proxy for 'attainment discrepancy'. However, we argue that performance compared to the industry is simultaneously much less and much more than 'attainment discrepancy'. It is much less, as 'attainment discrepancy' is based on more than only objective results, as we explained in length above. But it is also much more, as it provides CEOs with contextual information about how their organization is doing *in comparison with their industry peers, their competitors*. As such, it helps them to recognize their organization's relative position in the industry (Kacperczyk et al., 2015). It provides CEOs with clues about the validity and effectiveness of the organization's current strategies, affecting their confidence in these current strategies (Audia et al., 2000; Haleblian & Rajagopalan, 2005). Moreover, Chatterjee and Hambrick (2011) elucidate that the organization's recent performance compared to the industry also represents a contextual stimulus that shapes CEOs' confidence level, as CEOs might reasonably interpret it as an indication of their level of overall ability. Good results, especially in comparison to their competitors, might make CEOs "come to think of themselves as 'on a roll' or having a 'hot hand'" (Chatterjee & Hambrick, 2011, p. 206).

All of this suggests that the organization's performance compared to the industry might act as a contextual moderator – i.e., that it will weigh in when CEOs

ponder about the potential strategic changes they intend to undertake in the near future. Hence, we argue that the magnitude of strategic changes the CEO intends to pursue will be driven by a *combination* of (1) the CEO's (subjective) satisfaction with performance and (2) the organization's (objective) positive or negative performance feedback as compared to its peers (i.e., a positive or negative context). This is in line with Ocasio (1997) who advocates that managers decide about the necessity to react to particular cues based on both what they objectively experience, and what they subjectively perceive and believe. Below, we describe our expectations on the moderating effect.

First, CEOs who are dissatisfied with their organization's results are expected to undertake actions to remedy their disgruntlement. The BTF describes this as *'problemistic search'* behavior. In a context of poor performance compared to the industry, they moreover receive the signal that their current strategies are not paying off. Hence, in order to revert their disadvantageous situation, CEOs will most probably be motivated to *initiate changes* in their current strategies (Greve, 2007). However, the situation will be different when dissatisfied CEOs experience high levels of performance compared to the industry. This might happen, for instance, when highly ambitious CEOs have even higher expectations, and consequently are not satisfied despite their objectively positive performance among industry peers. In this situation, we argue that CEOs will still seek for ways to alleviate their dissatisfaction, but they are not inclined to do this by pursuing a high magnitude of strategic changes. To the contrary, the positive performance compared to the industry signals the effectiveness and adequacy of the organization's current strategies (Audia et al., 2000; Hambrick et al., 1993). Hence, dissatisfied CEOs might rather be inclined to increase their efforts incrementally and *related to the current strategies*, rather than to *change* them (Foo et al., 2009). Moreover, even if CEOs are dissatisfied, the positive (and highly visible) objective performance cues might not enable them to present this to the organization's stakeholders as a significant and urgent threat that warrants strategic changes (Chowdhury & Lang, 1996; Garbuio et al., 2015).

Second, it is commonly expected that satisfaction with performance leads to complacency. For instance, Miller and Chen (1994, p. 3) said that "success can make managers so complacent, so content with the status quo, that they resist change", and

Labianca et al. (2009) talked about being "lulled in complacency". However, several scholars have made clear that satisfaction does not always lead to inaction. Audia et al. (2000) found that higher levels of satisfaction corresponded to higher levels of self-efficacy and higher future goals – suggesting that satisfaction might instigate *proactive* behavior (see also Foo et al., 2009; Haleblian & Rajagopalan, 2005). We expect that this tendency towards proactive behavior will be especially relevant when CEOs receive positive cues about their performance compared to the industry, as the latter is not only an indication of the organization's success, but will also be perceived by the CEO as a cue of his/her overall ability and capability (Chatterjee & Hambrick, 2011). As Chatterjee and Hambrick say (2011, p. 206): "When a person receives negative or positive feedback in a domain of central importance to his or her psychological self-concept [such as their organization's performance compared to the industry], it spills over and influences his or her sense of potency in multiple domains." This sense of potency will subsequently boost the CEO's confidence and eagerness to engage in proactive strategic actions, such as innovation and strategic changes (Chatterjee & Hambrick, 2011; Sitkin & Weingart, 1995). Hence, we expect that the negative effect of CEOs' satisfaction with performance on the magnitude of intended changes will be attenuated (or even reversed) in case of positive performance compared to the industry.

Finally, CEOs might be satisfied, despite receiving negative performance signals from the industry. This may happen, for instance, when CEOs consider that there are organizational or contextual issues that have influenced the company's activities and performance, and that there are still reasons to be satisfied with the results achieved, despite the lower objective figures (Jordan & Audia, 2012). We expect CEOs in this situation *less inclined to undertake actions* related to strategic changes, as CEOs lack the appropriate incentives and motivation to pursue changes (given their high satisfaction levels). One illustration would be a CEO of an organization which is immersed in a reorganization process and who ascribes any poor objective results within the industry to the organization's internal contingencies related to the reorganization process. Alternatively, CEOs' satisfaction might be explained by managerial oversight due to incompetence or inexperience, or simply low levels of ambition (Chowdhury & Lang, 1996).

Taking everything together, we expect that the combination of CEOs' (subjective) satisfaction with the organization's results and (objective) performance compared to the industry will explain the magnitude of strategic changes intended by the CEO. More in particular, we anticipate that the negative association between CEO satisfaction and intended strategic changes will be less pronounced (or even inverted) when organizations perform well in comparison with their industry peers. Accordingly, we hypothesize:

Hypothesis 2. The negative relationship between the CEO's satisfaction with performance and the magnitude of intended strategic changes will be moderated by the organization's performance compared to the industry; the higher performance compared to the industry, the weaker the negative relationship between CEO satisfaction with performance and the magnitude of intended strategic changes.

Note that above we have described two different situations in which we expect a higher magnitude of intended strategic changes: (1) dissatisfied CEOs who face negative feedback of poor performance compared to the industry, and (2) highly satisfied CEOs whose companies are performing very well compared to the industry. Whereas the former situation corresponds to a *reactive*, '*problemistic search*'-driven argumentation, the latter is founded on a logic of *proactive* search behavior, prone to the idea of '*organizational slack*' – i.e., that positive performance might increase organizations' resources, hence providing slack that can be used to experiment and pursue proactive strategic changes (Daniel et al., 2004; Greve, 2003). This dichotomy is in line with Haleblian and Rajagopalan's (2005) suggestion that strategic change can be reached through both a reactive and proactive pathway. Moreover, these different pathways may lead to change intentions that emphasize different repertories of strategic options (i.e., *contractive* vs. *expansive* moves, respectively). Although a comprehensive study of such differences in change intentions falls beyond our objective in this chapter, in post-hoc analyses we will explore both situations in more depth.

3.3. METHODS

3.3.1. Sample

For this study we use a sample of 137 Spanish medium-sized firms from a wide range of industries, for which we complemented data from questionnaires with objective data obtained from SABI Informa Database (Bureau Van Dijk), the most important source of business, accounting and financial information in Spain. This sample is particularly suited to test our research questions. The heterogeneity in industries in the set of organizations improves external validity. Moreover, medium-sized organizations are large enough to have a limited formal organizational structure, potential forces of inertia, and relevant stakeholders, while they usually lack the excess resources, extensive organizational structure and decision-making support that larger companies get. Therefore, managers and their capabilities are more relevant in organizational decision-making in medium-sized organizations (Lubatkin et al., 2006), making the CEO a central and key actor in decision-making.

We selected a random sample of 1000 medium-sized organizations (over 100 and up to 500 employees). Sixty percent of these companies belonged to manufacturing industries, whereas forty percent were operating in service industries. As a first step, we sent a pre-notice letter to the CEO of each organization explaining our study and assuring the confidentiality of the responses. We sought the participation of the organizations' *CEOs*, as they are generally well-informed, central, and experienced actors, highly involved in their organizations' strategic decision-making (Priem, 1994; Tang & Crossan, 2016). We monitored the CEOs' actual direct participation in completing the questionnaire through random telephone calls to 20 responding companies.

We excluded fifty-two organizations from the database because of incorrect addresses. Ten days after the pre-notice letter, we sent the questionnaire to the remaining organizations (948). Note that before sending out the questionnaire, three professors in strategic management and organizational behavior validated it and we ran a pre-test with five CEOs from medium-sized firms (not included in the final sample). Within the first eight weeks, 131 CEOs responded (13.8%). With the aim of improving the response rate, we sent the questionnaire again to the CEOs of the remaining organizations (817), and we received 59 additional answers. After removing

seven more questionnaires for reasons of incompleteness, our new sample contained 183 valid questionnaires (a response rate of 19.3%). As our hypotheses require the combination of subjective and objective data from the organizations, we complemented the information from the questionnaires with objective data of the financial statements of the firms in the sample. Unfortunately, 46 companies did not have full information available and, therefore, we had to drop them from our final sample. In the end, our final sample comprised full information from 137 firms (representing a valid response rate of 14.45%).

Our final sample had industrial percentages proportional to those of the original sample of 1000 organizations. Furthermore, we performed t-test comparisons between early and late respondents (analyses available from the authors on request). However, we did not find significant differences between these two groups ($p < .05$)[15].

3.3.2. Variables

Dependent variable: '*Magnitude of intended strategic changes*'

A broad variety of dependent variables and measures has been used in prior performance feedback literature (Shinkle, 2012). As mentioned above, one of the causes of the divergent results in the performance feedback literature may exactly be related to the use of different, and – more importantly – mostly rather distal variables of performance consequences such as *risk-taking, innovation, R&D expenditures*, etc. (e.g., Chatterjee & Hambrick, 2011; Chen, 2008; Greve, 2003). These are relatively remote proxies and may not be sufficiently close to the decisions that organizations' key decision makers actually make based on organizational performance feedback (Holmes et al., 2011; Schillebeeckx et al., 2016). To reduce the noise in testing our hypotheses, we therefore directly study the CEO's *intention to change* (cf., Greiner & Bhambri, 1989) instead of *actual, realized strategic changes*. This also allows us to take into consideration a broader set of strategic variables related to CEOs' willingness to change (as opposed to, e.g., only changes in specific investments such as R&D) and therefore, provides a

[15] As we mentioned in Chapter 2, along the investigations of this dissertation we have performed exhaustive controls for common method variance. All these analyses, as well as their specifications, may be found in Chapter 7.

richer and less-noisy variable which is more strongly related to CEOs' real intentions in decision-making.

We operationalize CEOs' intention to change as the *magnitude of the intended changes in strategy* being considered by the CEO, following a procedure similar to the one proposed by Hambrick et al. (1993). In particular, we formulated a set of six options that configure the organization's main strategic direction, including both scope (*internationalization, market penetration/consolidation, and diversification*) and growth methods (*organic growth, strategic alliances, and mergers & acquisitions*). We asked CEOs to identify the two options that had been the most important for their respective companies in the last two years, as well as the two options that had been the least important ones. Among these selected options, we asked him/her to identify only one option, which had been the most important, as well as one option that had been the least important. Those options not being rated either as important or unimportant were considered of neutral importance. This resulted in a codification of each option according to its importance using the following scale: 1 = *'the least important'*; 2 = *'unimportant'*; 3 = *'neutral'*; 4 = *'important'*; 5 = *'the most important'*. Subsequently, we asked them to do the same for the strategic options they intended to foster in the following two years.

To obtain an index of the '*magnitude of intended strategic changes*', we calculated the sum of absolute differences between the current (last two years) and intended (following two years) strategic options and divided the result by the maximum possible score of absolute differences, using the following formula:

$$MISCindex = \Sigma(ABS[p_{i\text{-}current} - p_{i\text{-}future}]) / MAX(\Sigma(ABS[p_{i\text{-}current} - p_{i\text{-}future}]))$$

where, MISCindex = index of the 'magnitude of intended strategic changes'

$p_{i\text{-}current}$ *= value of the 'i' strategic option carried out in the last two years by the firm*

$p_{i\text{-}future}$ *= value of the 'i' intended strategic option in the next two years by the firm*

The resulting index has a minimum value of '0' and a maximum of '1' ($0 < MISCindex < 1$). An MISCindex close to 1 indicates that the CEO intends to pursue a high magnitude of strategic changes (both in terms of scope and growth methods),

while an MISCindex close to 0 means that the CEO intends to persist in the same combination and priorization of the organization's current strategic options[16].

Independent variable: '*CEO's satisfaction with performance*'

We use a single-item measure of the CEO's degree of satisfaction with performance. More in particularly, we directly asked CEOs for their level of satisfaction with the outcomes (economic performance / profitability) obtained by the organization. Concretely, this value is measured in the questionnaire through a Likert scale from 1 to 5, where 1 = '*highly unsatisfactory*' and 5 = '*highly satisfactory*'. This measure is in line with the ones used by several scholars such as Audia et al. (2000), Carree and Verheul (2011), and Cooper and Artz (1995). Similar measures of self-reported satisfaction have been used in the areas of customer satisfaction (Peterson & Wilson, 1992), self-employment satisfaction (VandenHeuvel & Wooden, 1997), and job satisfaction (Wanous et al., 1997).

Moderator variable: '*Performance compared to the industry*'

In performance feedback studies, organizational performance feedback has been operationalized in many different ways (Short & Palmer, 2003), but the majority of scholars use ROA (return on assets) as a basis (Greve, 2007). Research has indicated that ROA is indeed used in practice by executives in a variety of industries when they self-assess their organizations' performance (Lant et al., 1992). Following prior scholars (Chatterjee & Hambrick, 2011; Buyl & Boone; 2014) we subtract the industry's mean ROA from the organization's ROA to obtain a measure of the organization's '*performance compared to the industry*'.

Note that this calculation is often used by performance feedback scholars to operationalize 'social performance feedback' – i.e., 'attainment discrepancy', in which the performance of the organization's peers (here: the whole industry) is considered as

[16] Note that this operationalization implies that for our main analyses, we see the magnitude of intended strategic changes on a continuous basis, irrespective of the precise content and direction of the intended changes. Put differently, ceteris paribus, a CEO who intends to increase the currently low level of diversification in his/her organization will have the same MISCindex as another CEO who wishes to decrease his/her organization's currently high level of diversification. In the same way, changes in various content domains (i.e., internationalization, diversification, etc.) are treated as equivalent and given equal weight. In post-hoc analyses (in the results section), we explore the content and direction of intended changes in more detail.

the aspiration level against which organizations assess their own performance (Buyl & Boone, 2014). We, however, use a more direct proxy of 'attainment discrepancy' (i.e., CEOs' satisfaction with performance; see above), and propose that organizations' '*performance compared to the industry*' represents a contextual cue that signals the appropriateness of the organization's strategies and the CEO's competence (Baum et al., 2005; Chatterjee & Hambrick, 2011).

Moreover, performance feedback scholars often also compute 'historical performance feedback' – i.e., 'attainment discrepancy', in which the organization's own historical performance levels are used as aspiration levels – either separately or in combination with 'social performance feedback' (Greve, 2007). However, we advocate that comparison of organizations' performance to the industry provides a better fit with our research purposes than comparison with organizations' own historical performance. As Buyl and Boone (2014) and Baum et al. (2005) argue, both represent different types of performance comparisons. In particular, comparing performance to historical levels is related to an internal self-evaluation of the organization's performance, whereas comparison to the industry is outward-oriented, includes additional information on economic and industry cycles, and pays attention to the organization's relative position between its competitors. The latter more closely aligns with our theoretical considerations. Nevertheless, for the sake of robustness we also performed tests in which we include '*performance compared to historical performance levels*', operationalized as ROA in year 't' minus ROA in year 't - 1' (see robustness checks section).

Control variables

CEOs are typically the central actor in strategic decision-making in medium-sized organizations. However, they do not operate in isolation. To start with, most of them actively interact with the other members of the top management team (TMT) in order to diagnose the situation and plan future actions (Tang & Crossan, 2016). Prior scholars have therefore suggested that the whole TMT might have an influence on managerial propensity to undertake strategic changes (Hambrick, 1994; Hambrick & Mason, 1984). In the same vein, Sánchez-Peinado et al. (2010) highlight that the TMT's composition plays an important role in limiting or encouraging strategic change.

Furthermore, many studies have shown that forces both internal and external to the organization limit the CEO's ability to pursue organizational change (e.g., Hannan & Freeman, 1989; Lant et al., 1992; Tushman et al., 1986). Hence, in our analyses we include control variables at the TMT-level, at the organization-level, and at the industry-level.

At the TMT-level we focus on TMT characteristics as in line with other scholars we argue that the TMT – together with the CEO – is ultimately responsible for firm's strategic decision-making, and that hence the composition of the TMT may influence managerial intentions to pursue strategic change (Sánchez-Peinado et al., 2010; Tang & Crossan, 2016). In particular, we control for '*TMT size*', '*TMT average age*' and '*TMT members with university studies*'. '*TMT size*' represents the total number of managers who take responsibilities for strategy definition and implementation. CEOs may take into account the TMT's size when considering the magnitude of the intended strategic changes and the challenge that they entail. In addition, prior literature considers TMT size as a covariate of executive attention (Cho & Hambrick, 2006) which might be closely associated with perceptions and change intentions. '*TMT average age*' (in years) may also influence CEOs' intention to foster changes in strategy (Elbanna et al., 2013). CEOs may be more prone to initiate larger changes when the TMT is formed by younger members, more energetic, and open to accept higher risks (Hambrick & Mason, 1984). Finally, '*TMT members with university studies*' (percentage of TMT members with a university degree) is regularly associated with more favorable attitudes toward change (e.g., Bantel & Jackson, 1989; Hambrick & Mason, 1984), which may facilitate the predisposition of CEOs to foster larger changes.

At the organization-level we control for *'size of the organization'*, *'age of the organization'* and '*number of additional businesses*' as these variables also might influence the CEOs' *intention to change* (Elbanna et al., 2013). We account for '*size of the organization*' (measured as operating income) as larger organizations might have more organizational slack to engage in exploratory activities (Lavie et al., 2010) and to meticulously analyze processes of change (Boeker, 1997). We include *'age of the organization'* (in years) as scholars have argued that this might have a negative influence on the likelihood of strategic changes (e.g., Sánchez-Peinado et al., 2010) because older organizations are characterized more strongly by consolidated routines

and practices which hinder the likelihood of change (Hannan & Freeman, 1989). Finally, we consider *'number of additional businesses'* (total number of businesses that the organization has apart from the main one) due to its close connectedness with managers' search behavior (Carter, 1998). For instance, Kihlstrom and Laffont (1979) explain that diversified companies have, on average, higher levels of risk tolerance than non-diversified ones, which in turn enhances strategic change. Alternatively, CEOs of diversified organizations may encounter more difficulties to reorient their organization's corporate strategy due to larger organizational complexity and stronger inertia, and because CEOs as a result will have lower power to influence strategic actions (Heese, 2015).

In the end, at the industry-level, we include '*industry innovation intensity*' (operationalized as the industry average of organizations' R&D expenses divided by its sales) to capture the industry's average degree of innovation, as a proxy for environmental dynamism, as this most probably affects CEOs' intention to change (Cohen & Levinthal, 1990).

3.4. RESULTS

The values of the means, standard deviations and correlations for all variables included in the analyses are presented in Table 5 (see below). We tested our hypotheses on the effects of CEOs' satisfaction with performance and performance compared to the industry on the magnitude of intended strategic changes using multiple hierarchical regressions (see below, Table 6). Before generating the interaction terms, we centered variables to reduce potential problems of multicollinearity. However, we also checked ex-post for the presence of multicollinearity in our analyses, and found that the variation inflation factors (VIF) were below 2.5 for all variables (analyses available from the authors on request).

Table 5. Descriptive statistics and correlation matrix

Measures	Mean	s.d.	1	2	3	4	5	6	7	8	9	10
Dependent variable												
1. Magnitude of intended strategic changes	.3527	.1785	1.00									
Independent variable												
2. CEO's satisfaction with performance	3.02	1.15	$-.124$	1.00								
Moderator												
3. Performance compared to the industry	6.06	10.51	$-.031$	$.371^{***}$	1.00							
Control variables												
4. Industry innovation intensity	1.22	.7736	.072	$-.156^{*}$	.083	1.00						
5. Size of the organization	31820.67	72234.13	.172	.069	$-.035$	.041	1.00					
6. Age of the organization	37.20	28.18	.084	$-.108$	$-.009$	.088	$-.023$	1.00				
7. Number of additional businesses	3.03	2.28	.026	$-.296^{*}$	$-.274^{*}$	.190	$.378^{**}$	$-.011$	1.00			
8. TMT size	7.40	6.68	.116	.078	$-.106$	$-.032$	$.264^{***}$	.091	$.293^{*}$	1.00		
9. TMT average age	42.54	6.36	$-.059$	$-.145^{*}$	$-.080$	.021	.140	$.286^{***}$	.191	$-.041$	1.00	
10. TMT members with university studies	70.09	42.16	$.315^{***}$	.094	.060	$.239^{***}$	$.209^{**}$	.057	.095	.073	$-.135$	1.00

N = 137
$^{*}p < 0.1$; $^{**}p < 0.05$; $^{***}p < 0.01$ *(two-tailed)*

Source: Prepared by the authors.

3.4.1. Hypotheses tests

Model 1 (Table 6) includes control variables only. It appears that the magnitude of intended strategic changes is higher in younger organizations – as could be expected because older organizations usually have more strongly established procedures and routines that create inertia (Hannan & Freeman, 1989). Intended strategic changes are also higher in magnitude in organizations with lower degrees of diversification, which supports the notion that diversification amplifies organizational complexity and lowers the power and influence of CEOs on strategic actions (Heese, 2015). Additionally, the magnitude of strategic changes is elevated in organizations with more TMT members with university degrees, which aligns with the idea that more highly educated people are more favorable towards and more apt for change (Bantel & Jackson, 1989).

Table 6. Results of linear regression analysis

Measures	Model 1	Model 2	Model 3
Industry innovation intensity	– .079	– .173	– .431**
Size of the organization	.338	.353	.244
Age of the organization	– .361*	– .443**	– .363**
Number of additional businesses	– .495**	– .577**	– .394*
TMT size	.150	.177	– .266
TMT average age	.061	.074	– .041
TMT members with university studies	.423**	.369*	.580***
CEO's satisfaction with performance		– .309*	– .740***
Perf. compared to the industry		.104	– 2.538**
Perf. compared to the industry * CEO's satisfaction with perf.			2.669***
R^2	.387	.459	.608
Adjusted R^2	.216	.248	.429
R^2 change	.387*	.072	.148***
F-value	2.259*	2.172*	3.405***

N = 137
Dependent variable: Magnitude of intended strategic changes
*Standardized coefficients are shown; *p < 0.1; **p < 0.05; ***p < 0.01 (one-tailed)*

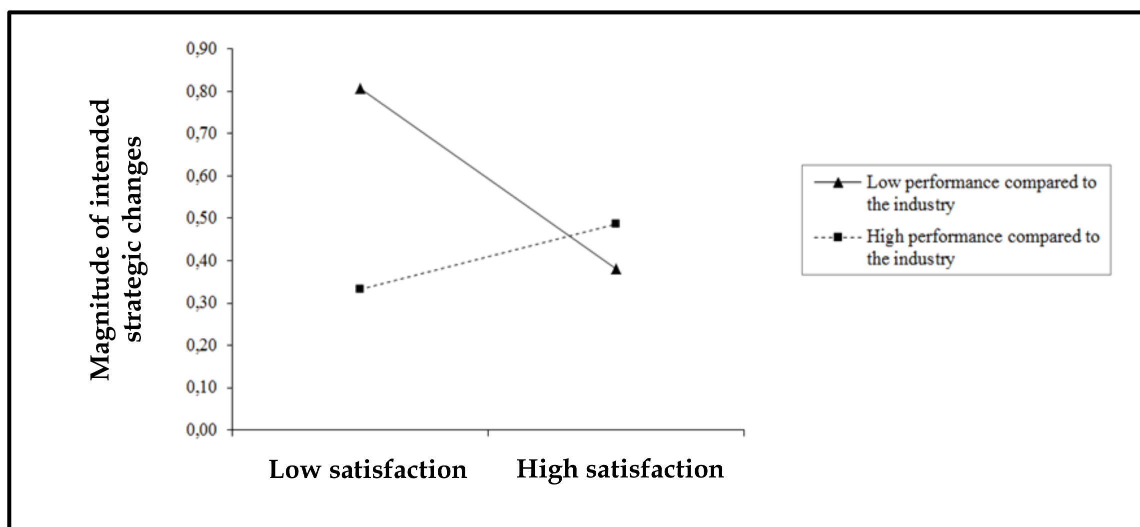
Source: Prepared by the authors.

In Model 2 we include the independent and the moderator variables, respectively the CEO's satisfaction with performance and performance compared to the industry (often called 'social performance feedback' by performance feedback scholars when measuring 'attainment discrepancy' – see methods section). As we proposed in Hypothesis 1, the CEO's level of satisfaction is inversely related to the

magnitude of the intended strategic changes (β = -.309; $p < .1$). Conversely, feedback of objective performance compared to the industry does not seem to have a direct effect on the magnitude of intended strategic changes. These results are consistent with our argumentation. CEOs' levels of satisfaction seem to reflect 'attainment discrepancies' better than objective measures of performance do, as reflected in the observation that the former affect the magnitude of intended changes (in the expected direction), whereas the latter do not.

In Hypothesis 2, we anticipated that performance compared to the industry would moderate the effect of the CEO's level of satisfaction with performance on the magnitude of the intended changes in strategy. In line with Hypothesis 2, in Model 3 we find a significant and positive interaction effect of the CEOs' level of satisfaction and performance compared to the industry (β = 2.669; $p < .01$). To facilitate the interpretation of this interaction effect, we graphically represent it in Figure 6 (see below). Thus, we plot the effect of the CEO's level of satisfaction with performance on the magnitude of intended strategic changes in case of high versus low performance compared to the industry (note that high and low refer to the mean +/- one standard deviation in Figure 6).

Figure 6. The interaction of the CEO's satisfaction with performance and performance compared to the industry on the magnitude of intended strategic changes



Source: Prepared by the authors.

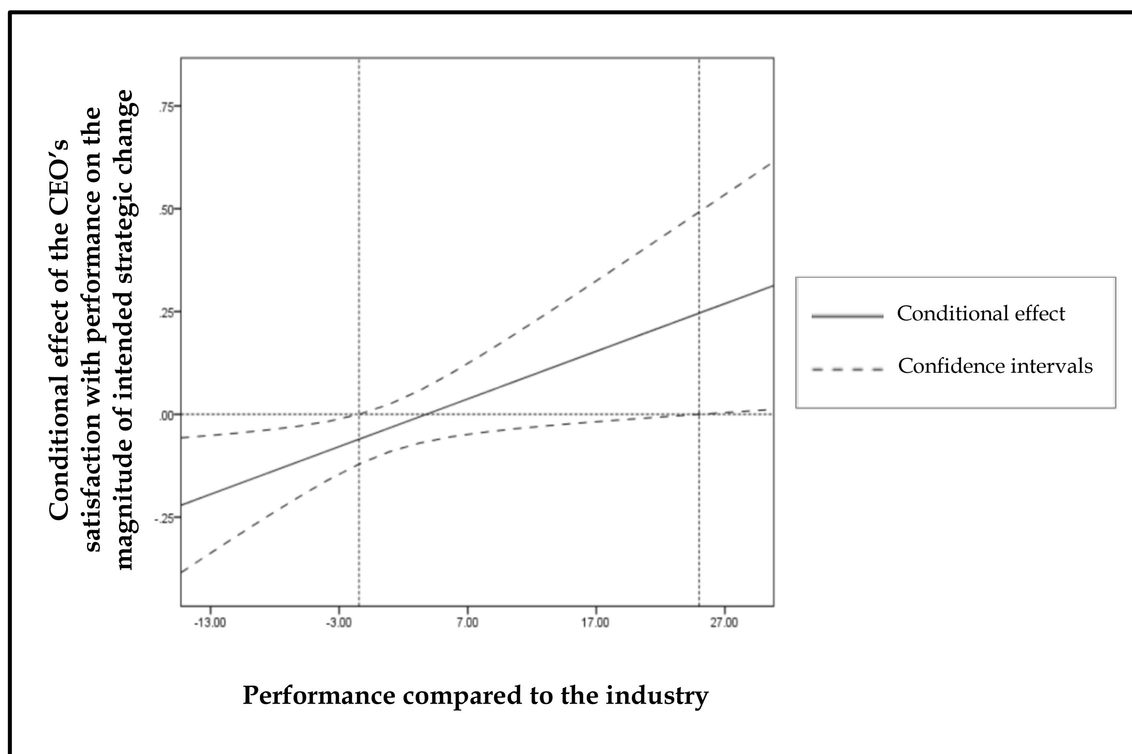
Consistent with the BTF's baseline proposition, Figure 6 shows that the slope of the relationship between the CEO's level of satisfaction with performance and the magnitude of intended strategic changes is negative in the context of low objective performance feedback (low performance compared to the industry). However, the slope appears to reverse and become positive in case of high performance compared to the industry. That is, for companies that objectively perform better than their competitors, managers seem to foster larger changes when they are more satisfied with results than when they are unsatisfied. Hence, the *combination* of the CEO's level of satisfaction and (social) performance feedback appears to predict strategic change intentions better than either one of both in isolation.

Note, however, that in a context of positive performance feedback, the differences in terms of magnitude of intended changes between unsatisfied and satisfied CEOs appear to be less pronounced (the slope is less steep). To assess the interaction effect more systematically and comprehensively, we applied the Johnson-Neyman technique to define the regions in which the coefficient of the CEO's level of satisfaction with performance is significantly positive or negative, conditional upon a certain context of performance compared to the industry (see Preacher et al., 2007). Figure 7 (see below) plots this conditional effect for the whole range of our moderating variable – performance compared to the industry – with a 95%-confidence band (full analyses are available from the authors upon request). Note that for this analysis, we standardized all variables. The interaction effect is significant when the confidence intervals (represented by the dotted lines in Figure 7) are either both above or both below zero – the former representing a positive conditional effect and the latter a negative one. The vertical lines in Figure 7 represent the boundaries of the regions in which the interaction coefficient is significant (at the .05-level).

Based on the Johnson-Neyman technique, the CEO's level of satisfaction with performance has a negative effect on the magnitude of the intended strategic changes (following the BTF-inspired thinking) within contexts of low levels of performance compared to the industry. This situation includes 64.96% of the cases included in our sample. This negative effect becomes less pronounced the higher the level of performance compared to the industry and turns insignificant (at the .05-level) at a value of -1.4535 (for the standardized variable). This indicates, in line with our

expectations (Hypothesis 2), that for moderate to high levels of objective performance (compared to the industry), the negative effect of CEOs' satisfaction with performance becomes weaker. Interestingly, however, for very good performers in comparison with the industry (2.92% of the cases in our sample) – with a value of 24.9978 (for the standardized variable) or higher – we find that the relationship between the level of satisfaction with performance and the magnitude of intended strategic changes even becomes positive and significant.

Figure 7. Coefficient of the CEO's satisfaction with performance conditional upon performance compared to the industry



Source: Prepared by the authors.

3.4.2. Post-hoc analysis: Exploratory analyses of specific changes intended by CEOs

As we mentioned above, the dependent variable in our analyses refers to the general, overall magnitude of strategic changes intended by the CEO. However, the literature on strategic change provides extensive evidence of the existence of different patterns of changes that organizations might adopt (e.g., Lant et al., 1992; Dominguez & Barroso-Castro, 2017). In this sense, organizations' responses may differ, for instance,

in terms of the intensity or speed of strategic changes (Balogun & Hailey, 2004; Hrebiniak, 2006), or the variation of strategic repertories that they intend to implement (Haleblian & Rajagopalan, 2005; Sánchez-Peinado et al., 2010; Wissema et al., 1980). In order to better understand the effects of 'attainment discrepancies' (CEOs' level of satisfaction) and the contextual position of the organization (performance compared to the industry), in exploratory post-hoc analyses we provide a more detailed examination of the specific changes envisaged by CEOs. This allows us to investigate (exploratively) the differences in the *number* of intended changes, as well as the *scope* and *direction* of these intended changes, and how these differences might co-align with different combinations of CEO satisfaction and performance compared to the industry.

We split our sample in four groups of companies: (A) companies with high performance compared to the industry (above average) and high levels of CEO satisfaction (above average), (B) companies with high performance compared to the industry but low levels of CEO satisfaction (below average), (C) companies with poor performance compared to the industry and high levels of CEO satisfaction, and (D) companies with poor performance compared to the industry and low levels of CEO satisfaction. In line with our theoretical predictions and our earlier findings on the magnitude of intended changes, we find that the two groups that intended to change in the highest number of domains were group A (high performance, high satisfaction), with an average intention to modify 2.49 (out of 6) strategic options and group D (poor performance, low satisfaction), with an average intention to alter 2.19 strategic options.

First, satisfied CEOs from companies that are performing above average (group A) intend to make changes in the highest number of strategic options. Combined with our earlier finding that these CEOs' overall magnitude of intended changes is still relatively low (see Figure 6), this suggests that these CEOs may consider relatively small adjustments in many dimensions of their strategies in order to experiment and explore new opportunities. In terms of scope, companies in this group mainly consider changes that increase internationalization and diversification efforts. This probably means that they intend to explore other markets (both in geographically and in terms of products and offerings). In terms of direction, they emphasize future efforts both in internal and external growth modes, with an emphasis on expansive moves.

The second group that pursues a high number of changes is the one characterized by unsatisfied CEOs facing poor performance (Group D). Contrary to CEOs in group A, in terms of scope these CEOs rarely consider increasing efforts in internationalization, while they seem to be interested in market consolidation and diversification movements aimed to reconfigure a business model that is not performing well. In terms of direction of intended strategic changes, these CEOs show lower intentions to foster internal growth, but they are open to consider mergers, sales of business units or disinvestments. Hence, unsatisfied CEOs from poorly performing companies appear to prefer more contractive strategic changes, focused on market consolidation, retreats from diversification ventures or from international markets, together with a higher emphasis on disinvestments.

Taken together, these exploratory analyses on the specific changes intended by CEOs give us some more insight into the specific responses to 'attainment discrepancies'. In line with what the BTF expects in terms of *'problemistic search'*, CEOs that are unsatisfied with results appear to respond to the 'problem' generated by poor performance feedback by searching for remedies to solve this problem in the *immediate vicinity* of the organization's current strategy (e.g., Cyert & March, 1963) – i.e., by proposing more contractive (exploitative) changes. In contrast, satisfied CEOs from well-performing organizations seem to react in a more exploratory, proactive way, by engaging in more expansion- and growth-oriented strategic changes. This is in line with the expectations of both the *'organizational slack'* (Daniel et al., 2004) and the *'capability cue'* perspectives (Chatterjee & Hambrick, 2011). More precisely, the high levels of satisfaction and positive performance cues both provide CEOs with more resources to engage in (proactive) search behavior (Daniel et al., 2004; Garbuio et al., 2015) and boost these CEOs' confidence in their skills to pursue risky, innovative strategies (Chatterjee & Hambrick, 2011; Sitkin & Weingart, 1995).

CEOs that show the lowest intentions to promote strategic changes, both in terms of magnitude and number of strategic options intended to modified, are those who show high levels of satisfaction with results that are objectively poor (Group C). Various perspectives may help to explain this lack of reaction. These companies are achieving poor results and, probably, they lack the necessary organizational slack to carry on with new initiatives (e.g., Daniel et al., 2004; Garbuio et al., 2015). Threat

rigidity (e.g., Staw et al., 1981) may also play a complementary role for those cases in which CEOs are facing environmental or organizational contingencies, such as changes in the structure of competition, concentration processes of customers or suppliers, or organizational restructurations. In addition, the high satisfaction with performance of the CEO may be indicating that he/she is prioritizing or paying more attention to other organizational objectives rather than financial performance[17].

3.4.3. Additional analyses and robustness checks

To further explore our results, we have performed some additional analyses and robustness checks. First, based on prior research and intuition, it could be proposed that the relation between performance compared to the industry, CEOs' satisfaction with performance, and the magnitude of intended strategic changes is characterized by mediation (with satisfaction with performance as a mediator) rather than moderation – see also Audia et al.'s (2000) study in which they used satisfaction as a mediator between past success and persistency in strategies after environmental changes – or even a moderated mediation (with performance compared to the industry both predicting CEOs' satisfaction with performance, and moderating the effect of CEOs' satisfaction with performance on the magnitude of intended changes).

To explore this possibility, we first tested whether satisfaction with performance could be considered as a mediator. In fact, our empirical findings provide initial support for this reasoning, as evidenced by the positive and significant correlation between performance compared to the industry and CEO's satisfaction with performance (.371; $p < .001$; Table 5) and the negative and significant regression coefficient of CEO's satisfaction with performance on the magnitude of intended strategic changes (see above). To formally test for the mediation effect, we followed Preacher et al.'s (2007) suggestions to look at bootstrapped confidence intervals of the indirect effect ($b = -0.0011$, 95% CI [-0.0083, 0.0023]) and size effect analyses ($b = -0.5836$, 95% CI [-63.5625, 0.4914]). However, the results suggest that the CEO's satisfaction with performance was not a mediator, as both confidence intervals do

[17] Note that 88.8% of Spanish companies are family firms (Instituto de la Empresa Familiar, 2015) and, consequently, many CEOs may prioritize non-financial objectives, such as socio-emotional wealth preservation (Martin & Gomez-Mejia, 2016). For more information about these type of organizations, see Chapter 4.

comprise zero (full analyses can be requested from the authors). This actually underscores prior findings (e.g., Christen et al., 2006) that the association between objective performance and satisfaction is only weak at best.

Second, we assessed a moderated mediation model (see Preacher et al., 2007). To do so, we estimated coefficients independently in two regression analyses using bootstrapping (Alfes et al., 2013; Wiedemann et al., 2009). First, the CEO's level of satisfaction with performance (Me) was regressed on performance compared to the industry (IV). Subsequently, the magnitude of intended strategic changes (DV) was regressed on performance compared to the industry (IV), the CEO's level of satisfaction with performance (Me), and the interaction between them (IV * Me; using mean centered variables). An overall effect of the IV on the Me is a necessary precondition for moderated mediation: a significant interaction effect (IV * Me) is only indicative of moderated mediation if IV also affects Me (Preacher et al., 2007). Unfortunately the first requirement was not accomplished ($b = 0.0195$, 95% CI [-0.0472, 0.0861]). Again, this substantiates that poor/high objective results do not necessarily imply low/high satisfaction with performance. In sum, we can conclude that neither a mediation relationship nor a moderated mediation relationship is present in our data.

Furthermore, we also executed a test to check for the robustness of our findings (analyses available from the authors on request). In particular, as mentioned in the methods section, in our study we chose to assess organizations' performance against the industry mean and not against organizations' own historical performance when contextualizing our baseline hypothesis. We did so because prior research has shown that both types of performance comparisons represent divergent approaches (Baum et al., 2005; Buyl & Boone, 2014) and we deemed the outward-oriented approach of the comparison of organizations' performance to the industry the most appropriate for our setting and sample. Nevertheless, for the sake of robustness we redid the analyses using '*performance compared to historical performance levels*' as a moderator variable (operationalized as ROA in year 't' minus ROA in year 't - 1'). The results obtained are in the same line, though they are slightly less convincing – which is not surprising given the previously mentioned differences in the underlying logic of both types of performance comparisons. In particular, we found a significant positive moderation effect of performance compared to the organization's historical performance levels on

the relationship between the CEO's level of satisfaction and the magnitude of intended strategic changes, though this effect was lower both in effect size and significance level as compared with the reported one ($\beta = .916$; $p < .1$; adjusted $R^2 = .311$ versus reported results: $\beta = 2.669$; $p < .01$; adjusted $R^2 = .429$).

3.5. DISCUSSION

In this study, we aimed to explain the magnitude of changes CEOs intend to undertake in their organizations' strategies, based on a combination of *subjective* interpretations of past performance in the form of CEOs' satisfaction with prior results, and *objective* feedback of performance in comparison with their industry peers. Using a dataset comprising both archival and questionnaire information of 137 Spanish medium-sized firms, we found general support for our hypotheses. In particular, we found that CEOs' satisfaction with performance negatively affected the magnitude of their intended strategic changes, in line with the BTF's notion of '*problemistic search*'. However, this effect was less pronounced in case of higher performance compared to the industry. The Johnson-Neyman analysis even indicated that at extremely high levels of performance compared to the industry, the effect of CEOs' satisfaction with performance turned positive, meaning that the magnitude of intended changes increased with higher CEOs' satisfaction levels.

All of this renders us to conclude that the *joint* assessment of subjective (CEOs' satisfaction with performance) and objective (performance compared to the industry) performance cues provides the most explanatory power. To illustrate this conclusion, note that the direct effects of CEOs' satisfaction and performance compared to the industry are only marginally significant and non-significant, respectively. This further underscores our proposition that subjective interpretations and objective performance cues jointly affect CEOs' intentions, and that organizational decision-making processes cannot be unraveled when managers' cognitions and interpretations are not taken into account. Hence, the combination of both objective and subjective performance cues is a better predictor of strategic responses than either one of them separately.

Our exploratory post-hoc analyses on the number, scope, and direction of intended strategic changes furthermore suggest that CEOs' specific strategic responses

(in terms of envisioned change trajectories) differ based on their levels of satisfaction and their organization's performance compared to the industry. Whereas unsatisfied CEOs facing poor performance appear to prefer reactive, contractive strategic changes, satisfied CEOs experiencing high performance rather opt for proactive, expansive moves. These insights further help us to integrate the different theoretical perspectives on organizational reactions to 'attainment discrepancies', such as the BTF (e.g., Greve, 2003), *'organizational slack'* (e.g., Daniel et al., 2004), and the *'capability cue'* perspective (e.g., Chatterjee and Hambrick, 2011).

3.5.1. Contributions

With this study, we contribute to the extant performance feedback literature in several ways. First, we contribute to this body of work by denouncing the common practice to proxy 'attainment discrepancies' by simple comparisons of prior performance with industry mean performance and/or the organization's historical performance. In particular, we show that a direct (subjective) measure of 'attainment discrepancy' (i.e., the CEO's satisfaction with performance) is superior in predicting CEOs' intentions to change, as illustrated by the significant direct effect of the CEO's satisfaction with performance and the non-significant direct effect of performance compared to the industry.

Furthermore, we also contribute to the performance feedback theory by showing that the effects of 'attainment discrepancy' on intended changes are not universal, but contingent upon contextual conditions – here: performance compared to industry. In particular, dissatisfaction does not always lead to higher intentions to change – if objective performance signals that the current strategies are paying off (as reflected in the organization's performance compared to the industry), it might lead to a lower magnitude of intended changes as it is more 'rational' to bank on and extend what you have been doing before. Similarly, satisfaction does not always lead to lower intentions to change (complacency), it might induce an upward strive and a boost in the CEO's self-confidence, and consequently lead to an increase in the magnitude of intended strategic changes. With these findings, we were able to reconcile some of the apparently contradictory perspectives in the performance feedback literature, such as the classic BTF view of '*problemistic search*', Labianca et al.'s (2009) notion of '*striving*

aspirations', and Chatterjee and Hambrick's (2011) '*capability cue*' perspective. Hence, rather than contradictory, we argue that these perspectives are complementary and context-driven.

Finally, we add to the extant performance feedback literature by focusing on CEOs' change *intentions* instead of actual, realized strategy, and by – in an exploratory way – investigating in more depth the different types of change intentions, based on the number, scope, and direction of intended strategic changes. These exploratory analyses, and the ensuing conclusions on reactive vs. proactive intended strategic changes, allowed us to further substantiate the reconciliation of the above-mentioned theoretical perspectives. More generally, they indicate that scholars need to be careful in operationalizing their dependent variable when assessing reactions to 'attainment discrepancies' (see also Kacperczyk et al., 2015), as many types of strategic change trajectories exist (Hailey Balogun, 2002).

3.5.2. Limitations and future research avenues

Like any study, ours has limitations that can set the stage for future research avenues. First, though our study assesses the effects that CEOs' satisfaction levels have on their intention to change, we do not take into account the antecedents that might guide these satisfaction levels. Future scholars might try to disentangle why some managers appear to be more easily satisfied than others, which in turn affects how these managers interpret performance feedback cues (as the present study suggests). For example, they may explore whether older or longer-tenured managers are more easily satisfied due to their higher intrinsic disposition towards complacency (Hambrick & Fukutomi, 1991), or whether CEOs surrounded by a larger or more functionally diverse TMT will be less easily satisfied due to differences in perspectives and opinions when confronted with performance feedback. On a related note, differences in satisfaction levels might also be attributed to industry- or organization-level effects. Future scholars might try to tease out these multilevel antecedents of CEOs' degree of satisfaction. Moreover, we already indicated that prior performance might be a determinant of satisfaction in itself, but that the relationship between both is not univocal. One opportunity for future scholars would be to investigate the link

between objective performance cues and satisfaction in more detail, and explore the extent to which it is affected by, for instance, traits of the CEO.

Second, we follow the example of many other scholars (e.g., Chatterjee & Hambrick, 2011; Greve, 2008 to name a few) when assessing performance as compared to the industry's average performance level. However, a more fine-grained approach might be warranted. Some researchers (e.g., Fiegenbaum et al., 1996; Labianca et al., 2009) advocate for comparing a focal organization's performance against that of an organization-specific reference group, which might not be congruent with the whole industry. We do not implement such an approach in the present study, partly because of pragmatic reasons (related to the availability of information on specific organizations' reference groups), but also because we believe that in our sample of SMEs in a variety of mostly mature industries – typically characterized by strong industry recipes – the performance levels of individual organizations' specific reference groups will probably be close to the industry's average performance level anyway (Lehner, 2000).

Third, we intentionally chose to study CEOs' intention to change instead of realized change behavior at the organizational level as the former is closer to CEOs' decision-making processes (which we want to capture) as opposed to distal outcome-related measures that assess actual, realized organizational change (Gavetti et al., 2012). Nevertheless, a fruitful research avenue would be to test whether this willingness to change at the CEO-level leads, afterwards, translates into actual changes in strategies, improvement of results, survival rates, etc. This presumes insights in the implementation process of strategic changes (Hailey & Balogun, 2002) and might require longitudinal data. Furthermore, even when only intended strategic changes are taken into account (as in the current study), our exploratory analyses of the scope and direction of these intended strategic changes already indicate that these issues deserve further attention. For instance, the processes underlying contractive changes might be different from those underlying growth/expansion changes. Similarly, it is clear that 'attainment discrepancy' drives change (either through a reactive, BTF-inspired logic or because of a proactive, '*capability cues*'/'*slack*'-related approach), but the magnitude, scope, and direction of change might differ. It would be interesting for future researchers to scrutinize how much an organization is willing to modify its strategic

paradigm under different types of pressures (such as satisfaction and/or objective performance cues).

Fourth, we used a sample of medium-sized organizations. Whereas we intentionally chose this context because of its suitability to test our hypotheses – i.e., CEOs are typically the most important actors in medium-sized firms (Lubatkin et al., 2006) – this choice might have limited the generalization of our results. An interesting avenue for further research would be to explore the impact of the type and governance structure of organization (e.g., ownership concentration, board characteristics and board involvement in strategic decision-making, family ownership, etc.).

In sum, our study represents one of the first to incorporate both objective performance measures and subjective interpretations of CEOs to explain their intentions to engage in strategic changes, and more precisely the magnitude of these changes. We hope that our study can set the stage for many others to come, and that it inspires scholars to account for both the 'hard' figures and the 'soft' perceptions when studying the effects of performance feedback.

CHAPTER 4:

Financial strength of family firms during non-munificent periods: The effects of TMT's characteristics and scope of operation

4.1. INTRODUCTION

The economic reality of most nations is dominated by family firm businesses (Astrachan & Shanker, 2003; Morck & Yeung, 2004). As stated by Tagiuri and Davis (1996), these organizations are unique, have inherent features and are source of distinct advantages and disadvantages. This uniqueness comes by the fact that a father and a son may be part of the same family, members of the same owning group and also team members of the same management group. While most family companies are small, some are relatively large and several are giants in their respective industries (Tagiuri & Davis, 1996). But generally, they considerably contribute to the national product and employment of the economy which underlines its prevalence and importance in our society (Beckhard & Dyer, 1983). As a consequence, academia has recognized the importance of family business studies in the last several years. However, a lot remains to be done. For example, researchers continue to disagree over the definition of a family business, and similarly there has not yet appeared a framework to help to integrate the many promising approaches (e.g., from strategic management, organizational theory, economics, sociology, anthropology, and psychology) used by researchers to study family firms. On the contrary, some aspects have been analyzed thoroughly such as the son's entry into the company and the rivalry between relatives who work together (Altman, 1971), the social structure and the particular strengths and weaknesses of family companies (Barry, 1975), the psychological characteristics of the owner-manager (Day, 1980) and the nepotism that is usually shown by these actors (Cambreleng, 1969), the management succession process (Hershon, 1975), etc.

Family firms contain hard-to-duplicate capabilities – or what some scholars call 'familiness' (Habbershon & Williams, 1999) – that make them peculiar and affect differently their survival and growth options (Chrisman et al., 2005). Moreover, the family's approach of transgenerational sustainability usually leads to the institutionalization of their perceived value of the combined family and business systems (Selznick, 1957), suggesting that the family firms' functioning may create utilities for members of a family business and shape their behaviors and decisions differently than in a non-family corporation. Hence, some scholars anticipate that the problems generated by close ownership, management of simultaneous roles, lifelong common history and conflicting intentions and behaviors may create inefficiencies

which would limit the ability of family businesses to create or renew distinctive 'familiness' within themselves (Cabrera-Suárez et al., 2001; Miller et al., 2003).

On the other hand, several studies have argued that family businesses can also be driven by emotions (Baron, 2008; Houchin & MacLean, 2005) which permeate these organizations through blurred boundaries between family and business (Berrone et al., 2010). Emotions may be present in all types of firms, but are likely to be more dominant within family firms (Gomez-Mejia et al., 2011). An important emotion-related factor that captures the essence of family firms and is believed to be the single most important feature to separate family firms from other organizational forms (Berrone et al., 2010), is the socioemotional wealth. Socioemotional wealth refers to "the non-financial aspects of the firm that meet the family's affective needs, such as identity, the ability to exercise family influence, and the perpetuation of family dynasty" (Gomez-Mejia et al., 2007, p. 106). In this sense, literature argues that the preservation of the socioemotional wealth exists outside the realm of purposeful organizational activities and therefore it may cause family firms to consider the entity as something more than just a source of income but also as a context for family activity and embodiment of its pride and legacy (Meyer & Zucker, 1989). In fact, as stated by McConaughy (2000, p. 121), managers of family firms "have superior incentives for maximizing firm value and, therefore, need fewer compensation-based incentives". That is to say, these managers will not have their individual interests as a priority but those of the organization. Thus, family ties seem to affect the way these companies invest, which is more related to efficiency because of their higher willingness to continue (Gimeno et al., 1997). This supposition is confirmed by several research such as Jensen (1986) who argues that family firms create greater cash levels, which make them rely less on debt as a form of financing; and Anderson and Reeb (2003) who anticipate that these firms have greater reliance on self-financing than non-family firms, which reduces their likelihood of default.

Based on these findings, in this study we propose that family ownership[18] will affect positively the financial strength obtained by an organization. In particular, we

[18] Note that in this research we understand *family ownership* as a wider concept that the mere existence of family members within an organization. Consequently, we also pay attention to their involvement and influence into the business. More particularly, and following the commonly used *essence approach* (see methods section), we consider a family business that which has the following characteristics: (1) a family

test this assumption using the latest and virulent crisis period as a time frame, which reached its most virulent peak during 2008 and 2009 and which has been characterized by its non-munificent features. This type of environments comprises a relative scarcity of resources (Keats & Hitt, 1988), fewer strategic options, fewer opportunities for expansion and development, more competitive pressure (Castrogiovanni, 1991) and unfavorable, complex and variable external forces for the companies to develop their activity (Haveman, 1992; Keats & Hitt, 1988). Consequently, we argue that under a non-munificent environment, the financial strength maintained by these firms will be even more relevant since this context may likely influence their immediate future and viability. That is to say, we anticipate that family firms' prospects, which are mainly reflected in the preservation of its socioemotional wealth – and therefore on the perpetuation of the family dynasty (Berrone et al., 2012; Gomez-Mejia et al., 2007), will keep on ruling the financial behavior shown by these organizations.

Additionally, following Hofer and Schendel (1978) and Sharma et al.'s (1997) research we argue that considerable understanding could be gained by appending strategic management insights on the family firm research approach. In this vein, we establish that the effect of family ownership on firm's financial strength will not be isolated but will be also affected by several aspects such as the organization's scope of operation and the characteristics of its key-role players. Put differently, we anticipate that the financial strength obtained by family businesses will not be the same whether they operate just in one country or in a bunch of them, whether they focus their attention on a single industry or on several, whether they have one type of managers with high educational level or poorly educated ones, etc.

Regarding the scope of their strategic decisions, we focus our attention on analyzing whether internationalization and diversification strategies influence the financial strength presented by such firms. In particular, and especially during the non-munificent context where we set our analysis, we anticipate a positive moderation effect of both variables. We do so due to when a firm opts to internationalize its activities it obtains a greater access to exploit economies of scale, lower labor and

influence over the strategic direction of a firm (Davis & Tagiuri, 1989); (2) an intention of the family to keep control (Litz, 1995); (3) a family firm behavior (Chua et al., 1999); and (4) a unique, inseparable, synergistic resources and capabilities arising from family involvement and interactions (Habbershon et al., 2003).

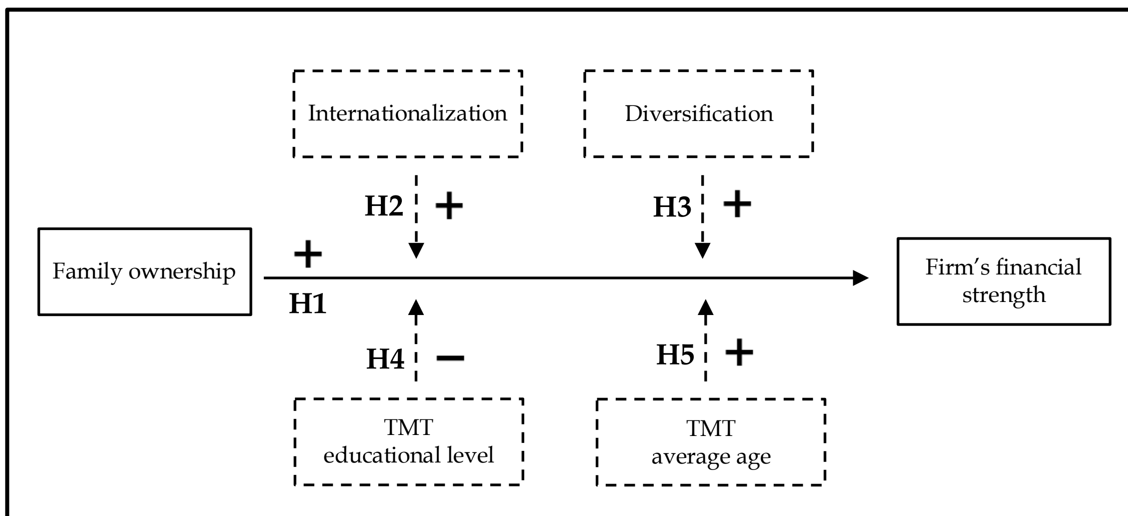
material costs, bigger market scope, etc. (Dicken, 2011); and when, on the other hand, an organization opts to diversify it produces an increase of the number of markets reached, reduction of the impact of fraud and bad information on firm's portfolio, improvement of the situation of the firm to market volatility, etc. (Anderson & Reeb, 2003). Thus, we predict that both actions will potentially minimize the global risk faced by such firms and will increase their opportunities for success due to their access to more heterogeneous markets – which will provide them more prospects of prosperity and growth (Goetzmann et al., 2005; Sanchez-Bueno & Usero, 2014).

Since the seminal study of Hambrick and Mason (1984) on the *upper-echelons* perspective, research on TMTs has developed itself into one of the most prominent areas in the management research field (Menz, 2012). Top management teams, defined as the group of managers consisting of the CEO and those managers that directly report to the CEO (Boeker, 1997), are widely recognized as one of the most imperative decision-making units in organizations. Likewise, this stream of research has emphasized the relevance of these actors in monitoring environmental conditions and modifying organization's strategies to maintain satisfactory alignments between both (Andrews, 1971; Child, 1972; Ling et al., 2008; Miles, 1982). In addition, in the particular context of family firms, TMTs are argued to be even more responsible for strategic decisions (e.g., Chua et al., 1999; Habbershon et al., 2003; Tagiuri & Davis, 1992). Thus, following this line of investigation, scholars have convincingly argued (and repeatedly found) that managers and their characteristics matter in affecting strategic decision-making processes, and, in turn, organization-level outcomes. In line with this body of work, we anticipate that the relationship between family ownership and firm's financial strength may not only be influenced by firms' scope of operation (i.e., by the *internationalization* and *diversification* presented by the firm) but also by the characteristics of their managers. More particularly, we drive our attention on analyzing the influence of their educational level and average age; and expect an opposite effect between both variables.

Thus, we argue that highly educated managers will leverage more due to their inherent characteristics such as higher confidence with investments, more openness to change, better deal with ambiguity and complexity, more facility to provide solutions, etc. (Bantel & Jackson, 1989; Barker & Mueller, 2002; Day & Lord, 1992; Herrmann &

Datta, 2005); therefore negatively affecting the financial strength presented by their (family) firms. Contrarily, we anticipate that older managers will leverage less as they tend to choose for more conservative capital structures (Chen et al., 2010), take less risk (Barker & Mueller, 2002; Hambrick & Mason, 1984), be more prudent with their actions and behavior (Wiersema & Bantel, 1992), be less able to organize information effectively (Taylor, 1975) and possess less physical and mental stamina to seize perceived opportunities (Child, 1974; Hambrick & Mason, 1984). Furthermore, in the non-munificent context where our study is set, which as previously mentioned will be an elevated uncertainty and variability, scarcity of opportunities, lack of demand, intense competition and risk (Acharya, 2009; Instituto de la Empresa Familiar, 2015; International Monetary Fund, 2009), we postulate that this higher/lower leverage (and especially the one dragged from the prior benevolent cycle) will have an even more clear negative/positive effect on the current firm's financial strength (for a summary of the research model presented in this chapter see Figure 8).

Figure 8. Research model



Source: Prepared by the authors.

In this research we do find that founding family controlled firms are financially stronger than non-family firms under non-munificent conditions. Additionally, we argued that this relationship would be affected by the context where the firm operates and the characteristics of its management team.As expected, TMT educational level

and TMT average age are found to negatively and positively moderate this relationship respectively. However, neither internationalization nor diversification strategies are found to have significant effects.

The remainder of the chapter is organized as follows. First, a theoretical background and literature review of family firm and its relation with performance will be provided. Second, several components that may influence or frame this relationship are exposed. Third, the research methods of the study will be explained. Fourth, the results will be presented and discussed. The article ends with concluding thoughts, limitations and insightful future research directions.

4.2. THEORY AND HYPOTHESES

4.2.1. Defining the family firm

Family firms are usually defined as a unique combination of two sets of rules, values, and expectations: the ones related to family and the ones related to business (Flemons & Cole, 1992; Gersick et al., 1997; Tagiuri & Davis, 1996). Moreover, it is argued that these firms share certain characteristics that render them unique in terms of patterns of ownership, governance, succession and the desire for the continuity of the family involvement in the organization (Chua et al., 1999; Steier, 2003). Therefore, can we assert that family firms are different from non-family firms? One would think such question would be fairly easy to answer, but actually it is not. Indeed, several scholars have found little or no difference between family and non-family firms on dimensions such as sources of debt financing (Coleman & Carsky, 1999), strategic orientation (Gudmunson et al., 1999), management and governance characteristics (Westhead et al., 2001) and problems and assistance needs (Welsch et al., 1995). Oppositely, several other studies have determined that family and non-family businesses differ in terms of goals (Lee & Rogoff, 1996), ethics (Adams et al., 1996), size and financial structure (Romano et al., 2000), international structures and strategies (Zahra, 2003), and corporate governance (Randøy & Goel, 2003). Nevertheless, in general, literature on family business has extensively acknowledged divergences between both types of organizations (McConaughy et al., 2001). Next, we underline some of their implications.

Firstly, empirical research has asserted that family firms' longer outlook imply a more vital vision into firm's intervention (Lee, 2006). This situation might come due to family firms have a distinct functioning from non-family firms and in particular for the consideration of their businesses as an asset to pass on to succeeding generations, instead of a temporary income provider (Casson, 1999). In other words, family firms may not only be a source of resources but also a context for family activity and embodiment of its pride and identity (Meyer & Zucker, 1989). In fact, several studies indicate that although some strategic decisions might contribute to achieve the economic goals of the business system, they could not be taken whether they threaten the non-economic goals inherent to the firm (Basco & Pérez-Rodriguez, 2009). These non-economic goals are captured in the literature by the concept of socioemotional wealth, which refers to "the non-financial aspects of the firm that meet the family's affective needs, such as identity, the ability to exercise family influence, and the perpetuation of family dynasty" (Gomez-Mejia et al., 2007, p. 106). In addition, according to some scholars such as Berrone et al. (2012) the preservation of this socioemotional wealth could become an end in itself in family firms – which would mean that in spite of organizational features demanded the need for some actions, the high willingness to preserve the firm's socioemotional wealth could hinder some of these 'necessary' operations and even making these firms to adhere to suboptimal choices (Bloom & Van Reenen, 2007).

In a relative vein McConaughy (2000) argues that family firms prioritize the obtaining of firm value to short term achievements, i.e., this author suggests that managers of these firms will think more of long-term incentives (such as the perdurance of the firm, stability, etc.) rather than of short-term incentives (such as immediate performance, higher salaries, etc.) or what is the same, they will probably superimpose the interests of the company to their own. Consequently, despite some other preferences showed up by non-owners members (Meyer & Zucker, 1989), family firm members will generate more efficient investments aligned with their willingness to continue operating in the long term (Gimeno et al., 1997).

For its part, Anderson and Reeb (2003) state that family firms mitigate organizational risk by employing financing forms with low probabilities of default, which suggests a greater reliance on self-financing through their capital structure.

Meanwhile, Jensen (1986) argues that concentrated ownership of family firms creates greater cash levels in these types of firms, thus allowing the organization to rely less on debt as a form of financing. Similarly, McConaughy et al. (2001) and Anderson and Reeb (2003) suggest that firms controlled by families have greater value, are operated more efficiently, and carry less debt than other firms.

4.2.2. Performance in family firms

As previously mentioned, non-economic goals are rather important to family firms since they usually guide their strategy and operations (Chrisman et al., 2003). However, empirical research on family business has rarely focused on these outcomes but has primarily dealt with its effects on economic performance issues (Chrisman et al., 2003). In this sense, family firm literature has mainly revealed that the particular ownership structure and characteristics of these firms will affect their efficiency and risk-taking, therefore influencing their value (McConaughy et al., 2001). We shall next review briefly some of the earlier work on this range of issues.

The arguments for explaining the increased *efficiency* of family firms are generally derived from the agency theory. This theory was brought by Jensen and Meckling (1976) and basically explains the existing relationship and potential problems between principals and agents in business due to their unaligned goals or different aversion levels to risk. Jensen and Meckling (1976) hypothesize that the larger a firm becomes, the higher its agency costs will be due to the greater formal monitoring and control systems necessary in these types of firms. However, these authors also argue that agency costs may be reduced by increasing the level of managerial ownership since monitoring and control costs would be diminished under these circumstances. In other words, what Jensen and Meckling suggest is that a concentration of managerial ownership, such as the one occurred in family firms, would drastically reduce (or almost eliminate) these costs as owner-managers will be more involved in firm management and will present similar interests. Moreover, in these specific firms there will not be the elevated pressure and demand for accountability, disclosure, and transparency from external shareholders, market analysts and external constituents that exist in non-family firms (Carney, 2005). As a consequence, literature agrees to conclude that family firms will enjoy greater efficiency than non-family firms (Daily &

Dollinger, 1992; Fama & Jensen, 1983; McConaughy et al., 2001). However, as every aspect in life, this is not free from detractors. Thus, Tosi et al. (1997) suggest that the agency theory approach oversimplifies the complexity of the agency relationship. In this vein, Morris (1989) explains that no separation between ownership and management can offset the positive long-term orientation of the business and may lead to behaviors that do not support the best interests of the firm. This, in turn, renders family firms more vulnerable to self-control problems. Indeed, family managers have the authority and legitimacy to pursue what they perceive as being the "best option" (Gedajlovic et al., 2004), making decisions that are less based on closely calculated risks, less grounded in a systematic way and with less incorporation of outsiders' perspectives and opinions (Schulze et al., 2001; 2003). This can result in family firms investing in projects without thoroughly considering the pros and cons in terms of risk. Put differently, family firms may "have greater latitude to allocate resources on the basis of 'animal spirits' or 'gut feel' and to pursue opportunities that can only be rationalized by particularistic or intuitive criteria" (Carney, 2005. p. 23). Moreover, it is also argued that psychological conflicts within the family can offset the benefits of the reduced monitoring enjoyed by these organizations (Kets de Vries, 1993). Meanwhile, emotions are hypothesized to cloud financial vision in such issues as succession planning (Morris 1989). Nevertheless, despite these findings, positive arguments are extensively argued to overcome the negative ones (McConaughy et al., 2001), suggesting that family ownership will be beneficial in mitigating the principal-agent conflicts that afflict these firms and consequently positively affecting its efficiency.

When it comes to analyze the *risk* taken by firms we will also focus on disentangling whether there are differences between family and with non-family firms. On the one hand, Zahra (2005) argues that family firms promote risk taking in general, while long CEO-founder tenures lead to the opposite. Yet, in the academic literature, family firms are commonly associated with weak risk bearing attributes (e.g., Meyer & Zucker, 1989). Particularly, Chandler (1990) and Fama (1980), among others, use concepts of the agency theory to support this statement. Hence, they establish that a high concentration of ownership will lead to risk avoiding strategic choices due to its governance structure. On this basis, there are reasons to believe that risk avoidance will be stronger in family firms than in non-family firms. First, in family firms, the

management tends to have most of its wealth invested in the firm and so assumes the full financial repercussion of failed investments (Gedajlovic et al., 2004). Consequently, necessary but risky strategic decisions, such as international expansion, launch of new products to the market, investments in R&D, etc. may be postponed due to concerns about the safety of the family wealth (Schulze et al., 2002). Second, there is more at stake in family firms than the family's current wealth: the financial and social wellbeing of future generations (James, 1999; Schulze et al., 2002). One example of it may be the family name and the family reputation – often built up over several generations (Bartholomeusz & Tanewski, 2006). This situation is not the same in other types of firms, where the connection to a wider family and to previous and future generations is less clear.

For its part, the *value* of an organization is assumed to be affected by the above two variables: the degree of efficiency and the risk profile (McConaughy et al., 2001). But, will there also be differences among family and non-family firms in this regard? Family firms are generally presumed to take longer-term outlook. Therefore, they will be less willing to take risks and will likely invest more efficiently, especially if their control allows them access to economic rents, which could be irretrievably lost if financial distress resulted in a change of control (Naldi et al., 2007). As a consequence, several authors such as Daily and Dollinger (1991), Kets de Vries (1993), Naldi et al. (2007) and McConaughy et al. (2001) propose that the value of these firms will be greater than the value of non-family owned businesses. Andres (2008) reinforces this assumption focusing more in detail on family involvement. Thus, he explains that family ownership will be only related to superior firm value if "the founding-family is still active either on the executive or the supervisory board" due to "if families are just large shareholders without board representation, the performance (and value) of their companies is not (will not be) distinguishable from other firms" (Andres, 2008, p. 431). That is to say, family ownership will generate higher firm values but only when family is actually involved in the business. Additionally, most of this research measures firm value through financial ratios (see methods section for a deeper explanation) which chiefly collect the organization's financial situation – or percentage of stockholders' equity in comparison with firm's liabilities (Fama & French, 1996). Accordingly, to be

more specific about what we are measuring, hereafter we will refer to such firm value as firm's *financial strength*.

In this study, and despite prior findings, we will also assess the differences in firm value or *financial strength* between family and non-family firms. However, we will take a different approach and, in particular, we will analyze this relationship under a non-munificent context. Literature widely agrees that family firms are positively related to higher values and financial positions but, from our understanding, no previous research has specifically tested it within the last financial crisis. This period of time (which reached its most virulent peak during 2008 and 2009) was characterized by a turbulent context where organizations and customers had to face a global recession which generated an elevated credit, mortgage and trust crisis, high levels of uncertainty, raised variability and the rupture of the production-employment-consumption wheel (International Monetary Fund, 2009). Therefore, to know the relationship between family ownership and firm's *financial strength* during this specific context may help us to better understand the differences among both types of organizations, to unravel whether their characteristics and preferences are accentuated (or not) during these periods, and to even anticipate repercussions on their potential discontinuance.

In particular, we argue that based on the previously exposed family-firm characteristics and peculiarities: such as elevated risk aversion (Anderson & Reeb, 2003), higher efficiency (Daily & Dollinger, 1992; Fama & Jensen, 1983), less dependence on debt as a form of financing (Jensen, 1986), will to continue in business (Gimeno et al., 1997), prioritization of the objectives of the company to the individual (McConaughy, 2000), relevant investment in their firms in terms of both financial investment, prestige and human capital (McConaughy et al., 2001), etc. these types of firms will (also) hold better positions in terms of value/*financial strength* than non-family firms during this time lapse. In fact, we anticipate that the own idiosyncrasy of family firms, strongly influenced by their socioemotional wealth (Gomez-Mejia et al., 2007), will make them not to vary their way of acting and continue investing, financing and operating thinking about the 'entity' as something more than a mere firm (Meyer & Zucker, 1989). In light of this, we hypothesize:

Hypothesis 1. During non-munificent periods, family ownership will be positively related to the magnitude of the firm's financial strength.

4.2.3. The impact of a non-munificent environment upon firm's financial strength

The competitiveness and viability of an organization depends, in a large percentage, on the ability of their managers to perceive, anticipate and respond to the pressures of the environment (Sánchez-Peinado et al., 2010). Over time, the accumulation of changes, both in the business environment and the internal level of organizations, often lead to situations of maladjustment that may jeopardize the competitiveness or survival of companies. To successfully overcome these circumstances managers must be able to adapt, modify or rethink the strategies of their companies to restore the desired company-environment adjustment (Sánchez-Peinado et al., 2010). However, this adaptation is not a fully discretionary process that can be carried out without any limits or obstacles. Deliberate changes in business strategy are motivated, facilitated or constrained by a multitude of interacting factors (Rajagopalan & Spreitzer, 1997). In fact, the identification and understanding of the factors that influence the adaptive capacity and strategic change of the companies has been a subject of great interest in the theories of the organization. Thus, for instance, Gordon et al. (2000) focus their analysis on studying the factors which limit or hinder organizational change and adaptation. Meanwhile, Santos and García (2007) assess the factors that impulse intentional changes in the strategy. On the other hand, Sánchez-Peinado et al., (2010) provide an integrative perspective jointly analyzing the effect of the factors that motivate or impel the intention to change and the ones that provoke resistance to it.

However, the aim of this research is not to deepen the analysis of these factors but to analyze and understand the effect of the environment on organizational decisions and results. In particular, this study is focused on a specific type of environment: the non-munificent environment, which has characterized the global economy during the last years. This situation has been deeply analyzed by both economists and scholars, establishing its inception in the financial crisis happened in the U.S. banking industry which subsequently spreaded to other industries and around the globe. Nevertheless, prior research has disagreed on the exact timing of this

economic shock: hence, while some scholars suggest that it started as early as 2007 (Aubuchon & Wheelock, 2010; Fahlenbrach & Stulz, 2011), most researchers agree that 2008 is the year the crisis really became apparent (Cole & White, 2012; DeYoung et al., 2013; Grove et al., 2011) and 2009 is the year in which the industry hit its lowest point (Guillén & Suárez, 2010). Cole and White (2012) help to clarify this situation illustrating the number of banks that went bankrupt during those years. In this way, they argue that only 31 banks did so between 2000 and 2007, whereas 30 banks failed during 2008 and over 100 bank failures were seen in the year 2009. At national level no different data is observed. Thus, Acharya (2009), Instituto de la Empresa Familiar (2015) and International Monetary Fund (2009), among others, similarly consider those years as a turning point for the Spanish industry – which comprises the basis of our study.

Nevertheless, the characterization of an environment is not as simple as it seems and as proposed by Dess and Beard (1984), to better understand their peculiarities we should analyze three different areas or dimensions: the *dynamism*, *complexity* and *hostility*. In particular, these authors define *dynamism* such as the instability/volatility that exists in the environment and the difficulty to predict the changes that occur in it (e.g., market instability, technological instability, etc.); *complexity* such as the heterogeneity, sophistication, diversity and concentration of elements present in the environment which make it more difficult to understand (e.g., diversity of products and markets, technical complexity of these elements, etc.); and *hostility* such as the abundance of resources relative to the number of firms competing for those resources and its ability to sustain organizational growth (i.e., a market with low growth may be extremely munificent whether it has few competitors; however, a market with high growth may generate a low capacity to a given company in the presence of a large number of companies). Haveman (1992) and Keats and Hitt (1988), among others, took the baton on this issue arguing that the unpredictable nature of *dynamic environments*, which are characterized by the rapid and discontinuous changes in demand, competitors, technology and information, would increase the risk in companies and its capability to generate good results. On the other hand, these authors establish that *complex environments* would cause a series of resources to be required in order to understand and obtain information from the environment, therefore preventing the use of such resources for the growth of the company. As a consequence,

they state that these environments would also intensify the risk in organizations and will negatively affect their performance. For its part, Covin and Slevin (1989) who define *hostile environments* as those characterized by a precarious industry position, resource scarcity, intense competition, technological, social, political and economic uncertainty, unbearable and difficult business climate, and a relative lack of opportunities for exploit; also consider that surviving and competing successfully in this type of environments would be harsh.

DeYoung et al. (2013), Instituto de la Empresa Familiar (2015) and International Monetary Fund (2009) jointly gather these three characteristics under the umbrella of the non-munificence to define the latest economic crisis occurred globally in recent years. Its consequences are not new since they are repeated cyclically (DeYoung et al., 2013). In this way, Wan and Hoskisson (2003) anticipate that this type of environment will be represented by a relative scarcity of all type of resources such as productive, financial, technological, bureaucratic, economic, political, legal and/or social, which will dramatically increase the risk of continuing in the market (Keats & Hitt, 1988). In addition, Castrogiovanni (1991) argues that under these circumstances firms will have fewer strategic options, fewer opportunities for expansion and development, and more competitive pressure. In fact, "although opportunities remain, they are (will be) more difficult to identify and exploit" (Castrogiovanni, 1991, p. 552). In sum, this environment indicates the existence of unfavorable, complex and variable external forces for the companies to develop their activity. Thus, overall poorer results and survival problems will be obtained as more resources are needed than are available under current environmental conditions. Moreover, this situation will be supported by the aggravation of the uncertainty, discouragement of investment, impediment to economic growth, forced adjustment of business strategies/structures and modification of entrepreneurial activities that will be normally carried out in the presence of a less munificent environment (Haveman, 1992; Wan & Hoskisson, 2003). Consequently, we argue that under non-munificent environments, the *financial strength* hold by organizations will be even more important since it could act as a turning point and probably determine their immediate future and viability (Iwasaki, 2014). Therefore, we set our research on this time frame.

4.2.4. The moderating role of internationalization

Family ownership will (also) potentially influence firm's financial strength during non-munificent periods. However, we argue that this interaction will not be isolated but will be affected by several aspects such as the organization's scope of operation and the characteristics of its key-role players. Thus, we anticipate that it will not be the same to operate just in one country as in three, to be focused on one activity or on several, to have managers with high educational level or poorly educated ones, etc. Next, we will analyze and explain these ideas.

Within the growing body of research on family businesses, the topic of *internationalization* is latterly receiving increased attention (e.g., Arregle et al., 2012; Fernández & Nieto, 2006). In fact, savage worldwide competition and technological developments beyond national borders are pushing family (and non-family) businesses to internationalize their operations (Claver et al., 2007). Among the benefits of internationalization we might highlight that it allows organizations to get a greater exploitation of the economies of scale, utilization of lower labor costs and access to better commodity prices, bigger market scope and different resources – such as specific knowledge and know-how (Dicken, 2011). All these aspects may be translated into growth opportunities which in family businesses could be seen as employment opportunities for succeeding generations, higher income perspectives and continuity of the firm (Claver et al., 2009). However, the relationship between family ownership and internationalization is still inconclusive which has generated that this set of literature is still looking for consensus which reconciles and connects the findings produced so far (for a recent review see Pukall & Calabrò, 2014). In this sense, some authors suggest that family ownership is positively related to internationalization (e.g., Carr & Bateman, 2009). Meanwhile, some others argue just an opposite relationship (e.g., Graves & Thomas, 2006). For its part, several scholars do not even find differences between family and non-family businesses' internationalization practices (e.g., Cerrato & Piva, 2010; Pinho, 2007), attributing these findings to differences in managerial control and/or ownership of the family (Arregle et al., 2012).

Likewise, the relationship between internationalization and firm performance has been deeply evaluated in strategic management and international business literature (e.g., Gomes & Ramaswamy, 1999; Hitt et al., 1997; Tallman & Li, 1996).

However, despite the numerous studies that has examined this association, literature evidence contradictory results (Annavarjula & Beldona, 2000). In this light, some recent studies have argued that there exists an inverse U-shaped curvilinear relationship between internationalization and performance, as opposed to a linear relationship, which has been the underlying premise in earlier studies (Gomes & Ramaswamy, 1999; Hitt et al., 1997). Nonetheless, some scholars belittle these surprising results arguing that most of the studies were based largely on samples of just manufacturing firms (Habib & Victor, 1991). Accordingly, these findings would suggest that this interaction might not apply similarly to every sector and should be somehow modified to account for their inherent differences.

As can be observed, empirical evidence on this issue is found to be ambiguous and rather inconclusive. Yet, in this study we do not have interest in clarifying either the relationship between family ownership and internationalization or between internationalization and firm performance; but we do aim to analize the effect of internationalization on the relationship between family ownership and firm's financial strength. With this, we expect to contribute to better understand whether family ownership acts as the main (and only) cause of firm's financial strength or if firm's diversity in terms of international scope of operation also affects this outcome[19]. In particular, based on the effects of internationalization such as the greater access to exploit economies of scale, lower labor and material costs, bigger market scope, etc. (Dicken, 2011); we argue that internationalized family firms will also contribute to generate higher levels of financial strength and especially during the non-munificent context where we set our analysis, which is characterized by an increase of the risk, scarcity of all type of resources, lack of strategic options and rise in competitive pressure (Acharya, 2009; Instituto de la Empresa Familiar, 2015; International Monetary Fund, 2009). More particularly, we predict that internationalization will potentially minimize the risk of firms and will increase their chances for success due to their access to heterogeneous markets – which will provide them bigger opportunities of growth and income (Buch et al., 2014; Moral-Pajares et al., 2015). Therefore, we

[19] All these interactions will be tested during the last non-munificent context (to obtain further information about this aspect see prior section).

anticipate that such firms will count on a better financial situation. The aforementioned arguments can be put together in the following hypothesis:

Hypothesis 2. During non-munificent periods, firm internationalization will positively moderate the relationship between family ownership and firm's financial strength.

4.2.5. The moderating role of diversification

Family firms are usually considered as organizations with large and undiversified shareholders. In this vein, family business literature has argued that these actors, who hold a high influence and power over the firm, will be able to impose certain actions that are not present in other firms with diffuse ownership (e.g., Shleifer & Vishny, 1986). Such actions can take many forms, including the expropriation of wealth from small investors, the imposition of excessive compensation packages, and risk avoidance (Anderson & Reeb, 2003). In this section we will focus our attention on this latter aspect which closely represent the undoubted desire about survival and continuity shown by family businesses (Gimeno et al., 1997). In fact, as previously mentioned, these firms will be generally understood by its members as an asset to pass to their relatives or descendants rather than wealth to consume during their lifetimes (Casson, 1999). Consequently, they will present strong incentives to minimize firm risk (Meyer & Zucker, 1989) and will generally evaluate projects on a different basis than non-family firms (Anderson & Reeb, 2003).

Empirical research on this body of literature has mainly identified two ways for reducing such risk: the search for financing strategies that hold low probabilities of default (which indicates greater reliance on self-financing or lower use of leverage in the firm's capital structure) or the diversification of the investment activities (Shleifer & Vishny, 1986). As the first one has been deeply argued and discussed in prior sections we will directly proceed to analyze the second. In this sense, several scholars have dived into this topic and examined the relationship between family ownership and corporate diversification. Thus, in particular, Berger and Ofek (1996) anticipate that the more control or undiversified shareholders in a firm, the more diversification this organization will experience – even at the cost of creating severe conflicts with the firm's other constituents. Consequently, these authors anticipate that mitigating risk levels via corporate diversification may be an effective investment strategy for these

firms. However, contrary results have been also documented in the literature. Hence, for instance, Anderson and Reeb (2003, p. 655) among others argue that "family firms (will) engage in significantly less corporate diversification", estimating this difference in about fifteen percent. Sanchez-Bueno & Usero (2014) reinforce this assumption exploring how the ownership structure of family firms specifically gives these organizations a distinctive nature in terms of diversification. Thus, they show that "(although) the degree of family ownership has a negative impact on the degree of diversification [...] the presence and ownership share of a financial company as the second largest shareholder in a family firm (will) favor this diversification" (Sanchez-Bueno & Usero, 2014, p. 1311).

Similar to the influence of family ownership on internationalization, the relationship among family ownership and diversification is still blurry. However, the effects of the latter on risk reduction are out of discussion (Anderson & Reeb, 2003). In this way, past research has widely argued that diversification of the activities carried out by a firm will produce an increase of the number of markets reached, reduction of the impact of fraud and bad information on firm's portfolio, improvement of the situation of the firm to market volatility, etc. (Anderson & Reeb, 2003). Consequently, in parallel with the previous hypothesis, we anticipate that diversified family firms will also contribute to generate higher levels of financial strength and especially during the non-munificent context where we set our analysis, which is characterized by an increase of the risk, scarcity of all type of resources, lack of strategic options and rise in competitive pressure (Acharya, 2009; Instituto de la Empresa Familiar, 2015; International Monetary Fund, 2009). More particularly, we predict that diversification will potentially minimize the global risk faced by firms and will increase their opportunities for success due to their access to more heterogeneous markets – which will provide them more prospects of prosperity and growth (Goetzmann et al., 2005; Sanchez-Bueno & Usero, 2014). Taken together, we expect that these firms will enjoy greater financial situation. These arguments can be summarized in the following hypothesis:

Hypothesis 3. During non-munificent periods, firm diversification will positively moderate the relationship between family ownership and firm's financial strength.

4.2.6. The effect of TMT characteristics in organizational strategy

Research from the *strategic choice* perspective, and more recently from the *upper-echelons* theory, has highlighted the relevance of managers (upper echelons) in organizations (Haveman, 2000; Stinchcombe, 1997). This argument is primarily based on Hambrick and Mason's (1984) seminal paper, through which it was postulated that organizations were, to a certain extent, a reflection of the attributes, attitudes and behaviors of their key-role members. Likewise, these authors also argued that because an individual's cognitive base evolves from its experiences, including training and background (Cyert & March, 1963), its demographic characteristics could be used as indicators of their qualities. This assumption inspired many scholars to empirically investigate the impact of such demographic characteristics on a myriad of outcome variables such as turnover, innovation, diversification, and organizational performance (Boone et al., 2005). Thus, following this line of investigation, scholars have convincingly argued (and repeatedly found) that managers and their characteristics matter in affecting strategic decision-making processes, and, in turn, organization-level outcomes.

In line with this body of work, we anticipate that the relationship between family ownership and firm's financial strength may not only be influenced by firms' scope of operation (i.e., by the *internationalization* and *diversification* presented by the firm) but also by the characteristics of their managers. Next, we will study some of them.

4.2.6.1. The moderating role of TMT educational level

Prior research has associated managerial *educational level* with the cognitive ability and knowledge base maintained by these actors. Thus, despite some authors such as Herrmann and Datta (2005) pinpoint that TMTs with higher educational levels generate excessive and dilated analyses – which is to the detriment of decision-making; this body of literature agrees to determine that these actors will possess a better ability to tolerate ambiguity (Wiersema & Bantel, 1992), to absorb new ideas (Barker & Mueller, 2002) and to generate creative solutions to difficult problems (Bantel & Jackson, 1989). Moreover, it is argued that these type of managers will also have bigger socio-cognitive capacities, will be more efficient at addressing vast information

from varying categories, will be more capable to generate rich and complex ideas for problem-solving, and will generally be more open to change and opportunities (Bantel & Jackson, 1989; Barker & Mueller, 2002; Day & Lord, 1992). In this line, Grimm and Smith (1991) empirically tested these assumptions, arguing that strategic change would more likely to be generated through managers which possess MBA degrees. Similarly, Herrmann and Datta (2005) established that highly educated managers were quite more confident (and less uncertain about complexity and variation) of their decisions in investment and therefore, they would not need as much financial slack as less-educated TMTs. Put differently, more-educated managers would be less likely to opt for a conservative capital structure (Herrmann & Datta, 2005).

Based on these findings and in parallel with prior hypotheses we anticipate that the educational level of a company's managers will also influence the relationship between family ownership and firm's financial strength. More specifically, we argue that highly educated managers will leverage more due to their inherent characteristics such as higher confidence with investments, more openness to change, better deal with ambiguity and complexity, more facility to provide solutions, etc. (Bantel & Jackson, 1989; Barker & Mueller, 2002; Day & Lord, 1992; Herrmann & Datta, 2005); therefore negatively affecting the financial strength presented by their (family) firms.

Furthermore, in the non-munificent context where our study is set, which is marked by an elevated uncertainty and variability, scarcity of opportunities, lack of demand, intense competition and risk (Acharya, 2009; Instituto de la Empresa Familiar, 2015; International Monetary Fund, 2009), we state that this higher leverage (and especially the one generated in the prior benevolent cycle) will have an even more clear negative effect on the current firm's financial strength. This argument is supported by Claessens et al. (2000, p. 23) who assert that difficulties shown by firms during crisis periods are not produced by these "external shocks, including a drop in aggregate demand [...] (but they are) apparent well before the crisis and the risky financial policies pursued by these firms (are the ones which truly) left them vulnerable". Accordingly, we hypothesize:

> *Hypothesis 4. During non-munificent periods, TMT educational level will negatively moderate the relationship between family ownership and firm's financial strength.*

4.2.6.2. The moderating role of TMT average age

Age can be assessed as a proxy of both the accumulated experience and the propensity for risk taking by someone. Focusing in the latter, prior research suggests that age will influence strategic decision-making in such a way that while younger managers will be more inclined to pursue high-risk strategies, older managers will be more conservative with their actions and behavior (Barker & Mueller, 2002; Hambrick & Mason, 1984; Wiersema & Bantel, 1992). Particularly, the *upper-echelons* literature bases this argumentation in three main motives. Firstly, because younger managers are usually more capable to learn and integrate information in decision-making processes and thereby, they will have larger confidence in their decisions (Taylor, 1975). Secondly, due to younger managers have higher technological knowledge as a consequence of having received their education more recently (Bantel & Jackson, 1989). Finally, as a matter of their age and life expectancy, younger managers will take more risks because of their financial and career security concerns are far away from the end (Barker & Mueller, 2002; Child, 1974). Extending this argument, we can expect younger TMTs to be more comfortable with long-term investments – which are usually composed by higher sunk costs and payoffs that may be generated only in the long run, if at all (Barker & Mueller, 2002). Several examples of this may be found in the literature. For instance, Herrmann and Datta (2005) show a negative relationship between managerial age and international diversification; whereas Chen et al. (2010) do the same with R&D spending. For its part, Ryan and Wiggins's (2001) research delves into this matter by determining that when manager's horizon is shorter than firm's investment horizon an agency conflict will occur. Consequently, these authors propose that managers should (always) have a short horizon and therefore, firms should offer managers stock-based awards oriented to short-term incentives (regardless of their age).

Based on these implications and similar to prior hypotheses we anticipate that the average age of a company's managers will also influence the relationship between family ownership and firm's financial strength. More specifically, we argue that older managers will leverage less as they tend to choose for more conservative capital structures (Chen et al., 2010), take less risk (Barker & Mueller, 2002; Hambrick & Mason, 1984), be more prudent with their actions and behavior (Wiersema & Bantel,

1992), be less able to organize information effectively (Taylor, 1975) and possess less physical and mental stamina to seize perceived opportunities (Child, 1974; Hambrick & Mason, 1984) – contrary to younger TMTs, which are more inclined to use more debt (Chen et al., 2010), take further risk (Barker & Mueller, 2002), make long and uncertain investments (Barker & Mueller, 2002; Herrmann & Datta, 2005), seek growth through novel and innovative strategies (Hambrick & Mason, 1984) and more easily adapt their home-grown mental maps (Nohria & Ghoshal, 1994); therefore positively affecting the financial strength presented by their (family) firms.

Moreover, in the non-munificent context where our study is set, which is characterized by low opportunities, high levels of uncertainty and variability, scarcity of resources and demand, fierce competition and incremented risk (Acharya, 2009; Instituto de la Empresa Familiar, 2015; International Monetary Fund, 2009), we anticipate that this lower leverage (and especially the one dragged from the prior benevolent cycle) will have an even more relevant positive effect on the current firm's financial strength. In other words, we expect that the lower risk taken by such managers during these years of depression (and the immediately previous ones) will generate a lower probability of investment failure (and therefore more financial strength) (Claessens et al., 2000). Following this line of reasoning we propose the following hypothesis:

Hypothesis 5. During non-munificent periods, TMT average age will positively moderate the relationship between family ownership and firm's financial strength.

4.3. METHODS

4.3.1. Sample

To examine these relationships we used a sample composed by 137 Spanish medium-sized firms (SMEs). This dataset contained both subjective data, obtained by sending questionnaires, and objective data, collected from SABI Informa Database (Bureau Van Dijk), the most important source of business, accounting and financial information in Spain. Our sample was made up of SMEs with the aim of being as representative as possible of all Spanish companies, where about 99.9% of them are SMEs. These companies are large enough to possess a formal organizational structure

and pre-established decision-making processes, while they usually lack the excess of resources, organizational structure and support functions that bigger companies preserve for their daily-basis operation. As a consequence, managers possess an even more relevant position in these firms (Lubatkin et al., 2006).

We selected a random sample of 1000 SMEs (over 100 and up to 500 employees). In particular, 60% of them were related to manufacturing industries, whereas 40% did so with operating in service industries. In addition, due to the significance that family ownership has in this study we also checked for its balance. Specifically, we found a similar percentage of family and non-family firms (55% family vs 45% non-family organizations).

Later on, we sent a pre-notice letter to the CEO of each organization explaining the baseline of our research and assuring them total confidentiality. Our questionnaire was addressed to the CEOs of the organizations as they usually are considered as well-informed and experienced enough actors who are highly involved in organizational strategic decision-making processes (Priem, 1994). To confirm its participation in completing the questionnaire, random telephone calls were made to 20 of these organizations. It is important to mention that three professors specialized on strategic management and organizational behavior area validated our questionnaire before sending it. Moreover, a revised version was pre-tested with five CEOs from SMEs (not included in the final sample).

A total of 52 firms out of 1000 were excluded from our database due to incorrect addresses. Ten days after sending such pre-notice letter we sent to the rest of the firms (948) the questionnaire with its corresponding cover letter. In total, we obtained the not inconsiderable figure of 190 questionnaires (representing a response rate of 20,04%). This number was obtained after forwarding the questionnaire again to the firms who did not respond to our request in the first instance (in particular, we firstly obtained 131 responses which were complemented with 59 more questionnaires afterwards). Of this figure we got to eliminate a total of 7 firms for reasons of incompleteness. As a consequence, our final sample was composed by a total number of 183 valid questionnaires (meaning a response rate of 19.3%). However, the test of our hypotheses demanded the combination of subjective and objective data from the organizations. Thus, we complemented the information gathered from the questionnaires

(representing the subjective data) with organizations' financial statements obtained from SABI Informa Database, the most important source of business, accounting and financial information in Spain. Unfortunately, we had to drop 46 firms from our final sample as they did not have full information available (i.e., they did not possess both subjective and objective data). Eventually, this sample embraced full information from 137 firms (representing a valid response rate of 14.45%).

Among them, 57.66% were family firms, whereas 42.34% were not – which represented a fairly close percentage to our original sample of 1000 organizations. However, for the sake of completeness we developed a comparison t-test between them which did not show significant differences among both groups ($p < .05$) (full analyses can be requested from the authors). Additional verifications about the final sample were accomplished. Thus, we also performed other comparison t-tests between early and late respondents and between the sectorial distribution of the original and final sample. Similarly, no significant differences were perceived between both groups either ($p < .05$) (analyses available from the authors on request). Likewise, we tested for residuals behavior, linearity among variables and existence of collinearity between them in order to test the veracity of our analyses. No significant problems were observed in any of the preceding categories (full analyses are available from the authors upon request).

In addition, we checked the validity of our subjective data (i.e., the one obtained by questionnaires) comparing it with the objective information obtained through the SABI Informa database. Consequently, potential common method variance[20] problems associated with the collection of information from single informants were minimized to the extent possible. Moreover, to avoid that variance of our data was attributable to our measurement methods we mostly used independent and straightforward variables (e.g., TMT diversity, TMT average age, TMT educational level, etc.). Therefore, any type of distortion by being subjectively measured by one individual is beyond question.

[20] A most exhaustive definition of the controls for common method variance executed along the investigations of this dissertation may be found in Chapter 7.

4.3.2. Variables

Dependent variable: '*Firm's financial strength*'

Fama and French (1996) stress the importance of the equity ratio in measuring *firm value*. In particular, this ratio measures the company's degree of financial leverage by dividing a company's total liabilities by its stockholders' equity. Thus, it indicates the proportion of the total assets that are financed by stockholders, as opposed to creditors. That is to say, a low equity ratio would produce good results for stockholders as long as the company earns a rate of return on assets greater than the interest rate paid to creditors. Following these authors, several research has also measure *firm value* using this financial ratio along the literature (e.g., Amit & Villalonga, 2014; Jain & Shao, 2015; Mishra & McConaughy, 1999; Thomsen & Pedersen, 2000; Villalonga & Amit, 2006).

Such ratio is similar to the Tobin's Q: another indicator of the *value of the company* – although much complex – which is obtained from the division of the economic value in the market of the assets invested by the firm and the price to replace said assets (Villalonga & Amit, 2006) and which has also been used by several scholars such as Morck et al. (1988) and McConnell and Servaes (1990), among others. Indeed, Chung and Pruitt (1994) found that the equity ratio may act as proxy of the Tobin's Q as it explains at least 96.6 percent of the variability of the latter. In particular, Tobin's Q requires arbitrary assumptions about depreciation and inflation rates which sometimes are difficult to reach. Moreover, in this indicator the value of the assets is calculated as the product of the share price at fiscal year-end times the number of common shares outstanding which may also be the cause of some difficulties. For firms with multiple classes of tradable shares, the procedure is the same for each class of stock and only requires adding the market value of all classes (Nenova, 2003; Zingales, 1995). However, the problem appears for firms with multiple share classes, including at least one class that is not publicly traded. This approach, which is also used in Gompers et al. (2004), multiplies the total shares outstanding of all classes by the share price of the tradable shares while the non-tradable shares are multiplied by an average price per share related to the rest of tradable shares. Another option proposed by Anderson and Reeb (2003) would consist of ignoring the shares outstanding of all non-tradable classes and therefore valuing these shares at zero. The two alternatives disregard aspects that

could modify the final market value of the assets of a firm. Furthermore in our sample a high percentage of the organizations are not publicly traded which would make more complex this calculation.

Consequently, in this study we will not use Tobin's Q to measure *firm value* but we will stick with equity ratio measurements. In particular, we will use the *Finance MORE* ratio, an equity ratio (among the many available in the literature) which is commonly used by scholars and practitioners in order to determine the *financial situation* or *financial strength* of a company as it includes predictions of yield spreads, financial leverage and other relevant accounting information (Campbell & Taksler, 2003). This ratio, which was obtained by SABI Informa Database (Bureau Van Dijk), the most important source of business, accounting and financial information in Spain, provides a scale from D to AAA (D, C, CC, CCC, B, BB, BBB, A, AA, AAA), where D represents the highest risk (or lower *financial strength*) and AAA the lowest (or higher *financial strength*). Several scholars have sometimes assembled these categories in four main groups: companies at risk (D, C, CC), vulnerable companies (CCC, B), risk-balanced companies (BB, BBB) and healthy companies (A, AA, AAA). Nonetheless, as our study aims to achieve the richer information as possible and we have access to such fine-grained data, we will use a pure measurement of the variable. Additionally, to be able to operate with this variable we made a simple transformation of their categories into quantitative values, where: D = '100'; C = '200'; CC = '300'; CCC = '400'; B = '500'; BB = '600'; BBB = '700'; A = '800'; AA = '900'; and AAA = '1000'. Likewise, as previously mentioned in the theory and hypotheses section, in this study we are interested in analyzing the effect of family ownership on firm's financial strength during the last non-munificent period suffered by the economy and, more concretely, during the years 2009 and 2010: which have been established by both economists and scholars as the years where the crisis reached its greatest virulence. Accordingly, we will take these years as reference of our investigation by calculating its average. Thus, for instance, whether financial strength for firm A in 2009 is '900' and '800' in 2010, we will allocate an average financial strength of 850 to this company during the 2009-2010 period. Meanwhile, whether financial strength for company B in 2009 is '700' and '700' in 2010, we will assign an average financial strength of 700 to this firm for the 2009-2010 time span.

Independent variable: ***'Family ownership'***

Literature does not agree about how to define '*family ownership*' (Chrisman et al., 2005). Hence, scholars should start their research with a common definition of family ownership (or/and a classification system consistent with that definition) in order to be able to distinguish every particular type of family businesses that is present in their studies (Sharma & Chrisman, 1999). Traditional definitions of family businesses have been rather fragmented, paying attention to some different components of a family involvement in the business such as ownership, governance, management, and transgenerational succession (Chua et al., 1999). As a consequence, scholars have had serious problems making these components precise and attempting to reconcile them in their investigations. One illustration of this situation may be observed in the fact that these definitions lack a theoretical basis for explaining why and how each component reflects different behaviors and outcomes in family vs non-family firms (Klein et al., 2005).

The observation that firms with 'similar' family involvement may or may not be considered family or non-family firms (due to the existence of those imprecise components), and that scholars' views may change over time, yielded that some scholars tried to define family businesses theoretically. Two approaches stand out mainly: the *involvement approach* and the *essence approach.* The *involvement approach* is based implicitly on the belief that family involvement is sufficient to consider a firm a family business. Meanwhile, the *essence approach* is based on the belief that family involvement is a necessary but insufficient condition; hence, family involvement must be directed toward behaviors that produce certain distinctiveness before a firm can be considered a family firm. In other words, two firms with the same extent of family involvement may not both be identified as family businesses if one of them lacks the intention, vision, 'familiness', and/or behavior that constitute the essence of a family business. Therefore, to consider an organization as a family firm, this approach established four main spots: (1) a family influence over the strategic direction of a firm (Davis & Tagiuri, 1989); (2) an intention of the family to keep control (Litz, 1995); (3) a family firm behavior (Chua et al., 1999); and (4) a unique, inseparable, synergistic resources and capabilities arising from family involvement and interactions (Habbershon et al., 2003). In a similar way, a more recent research from Astrachan et al.

(2002) proposed that the extent to which a firm may be identified as a family business should be determined by how family involvement is used to influence the business. Thus, these authors developed and validated a scale to measure this involvement as a continuous variable rather than as a dichotomous one – as previous authors did (Klein et al., 2005).

Particularly, in this study we do not use a continuous variable to measure such family involvement but a single-dummy variable. However, we totally intend to move away from a simple differentiation between companies that have family members within its governing body and firms which not. To do so, before answering this question on the survey we provided a full definition of what a family firm means according to previous paragraph insights to the CEO of the company. Specifically, we selected this actor to provide information about the degree of belonging of the organization to a family business as the CEO of the firm is usually considered central, well-informed and experienced enough to hold truthful and relevant information about the composition, structures and strategies followed by the organization (Arendt et al., 2005; Priem, 1994). Afterwards, they were asked to categorize their corporations as a: 1 = firm with '*family ownership*'; and 0 = firm with '*non-family ownership*'.

Moderator variables: 'Diversification', 'Internationalization', 'TMT educational level' and 'TMT average age'

Consistent with prior research, the '*internationalization*' of an organization was operationalized as the ratio of the foreign sales to total sales (e.g., Tallman & Li, 1996 among others). However, along the literature this variable has been measured through different ways (Gomes & Ramaswamy, 1999; Ramaswamy et al., 1996; Sullivan, 1994). For instance, Sullivan (1994) claimed for the use of a multidimensional measure consisting of five elaborated items. Meanwhile, Ramaswamy et al. (1996) underlined serious doubts on the latter measure based on problems with content validity and reliability. In turn, Ramaswamy et al. (1996) argued for the use of single-item measures, whereas Tallman and Li (1996) advocated for simply including the number of countries in which the firm operates to measure this variable. Despite the existence of all these options, in our study we followed research mainstream and measured '*internationalization*' as a simple ratio of the foreign sales to total sales. Additionally we

did so due to data availability limitation and for the aim of comparison with other studies.

Following precedent research, firm's '*diversification*' was operationalized as the number of business the organization was involved in (e.g., Khanna & Palepu, 2000). As highlighted in the literature, we prevented that individual firms within a group appeared to be singularly undiversified asking directly to the firm's CEO for the number of additional businesses of the organization (excluding the main business). In fact, it is notable to know that diversification is not synonymous with the number of firms within a group as usually there can be several firms (of that group) which belong to the same industry/ies or category/ies. As far as possible, these responses where validated through the objective information obtained from SABI database. In the literature there are some other diversification measures such as the Herfindahl index (Tallman & Li, 1996), the entropy measure (Jacquemin & Berry, 1979; Palepu, 1985), and the concentric measure (Caves et al., 1980). However, for data availability constraints and clearness purposes we chose to apply the simplest measure, i.e., a simply count of the number of firms in different industries.

'*TMT educational level*' was defined as the average of TMT members (including CEO) who had higher educational studies. We categorized managers into two different educational levels as follows: 0 = '*non-university studies*'; 1 = '*university studies or higher ones*'. Afterwards, a percentage of the TMT members with a minimum of university studies level was created. As may be observed in *upper-echelons* literature, there is not a unique and universal way of measuring this variable and therefore, some other studies have categorized the educational level of management members using different scales. For instance, Wally and Becerra (2001) used three educational levels: 1 = '*university degree or less*'; 2 = '*master's degree*'; and 3 = '*Ph.D.*'. Meanwhile Herrmann and Datta (2005) established a seven-point scale: 1 = '*high school*'; 2 = '*some college*'; 3 = '*undergraduate degree*'; 4 = '*some graduate school*'; 5 = '*master's degree*'; 6 = '*attended doctoral programme*'; and 7 = '*doctorate*'. On the same vein, Chen et al. (2010) also suggested a seven-point scale, although with some dissimilarities from the prior one: 1 = '*elementary school*'; 2 = '*junior high school*'; 3 = '*high school*'; 4 = '*2-year college*'; 5 = '*4-year university*'; 6 = '*master degree*'; and 7 = '*Ph.D*'. degree. In this study, we measured TMT educational level distinguishing (just) among university and non-university

studies for data restrictions and because, from a conceptual approach, we were just interested in differentiating between those two main groups.

Concerning '*TMT average age*', this variable was measured as the average number of age of the organization's TMT members (e.g., Herrmann & Datta, 2005). To do so, at the questionnaire the CEO directly answered to the question: "indicate the TMT average age of the TMT (including CEO)".

Control variables

CEOs are usually the central actor in decision-making processes within medium-sized firms. Nevertheless, CEOs unusually act alone. Most of them actively interact with other members of their decision-making team (or TMT) in order to pinpoint the situation, forecast results, assess threats and opportunities that they face, etc., and plan future actions (Hambrick, 1994; Hambrick & Mason, 1984; Tang & Crossan, 2016).

Hence, in our analyses we include control variables at this (managerial-) level. Prior scholars have also shown that organizational internal forces (e.g., political structures, inertia, sunk costs, firm's prior results, etc.) and external ones (e.g., entry and exit barriers in industries, features of the sector, competitors and suppliers' reactions, etc.) may limit the ability of firms to adapt themselves to the existing hostile and changing environment. Therefore, according to these studies, company- and industrial-level factors are considered as a control variables (i.e., at a company- and industry-level) as they will be able to affect current strategic actions and performance (e.g., Hannan & Freeman, 1989; Lant et al., 1992; Tushman et al., 1986).

Organization decisions are complex by definition as they are influenced by multiple actors. However, in line with other scholars we argue that the TMT (together with the CEO) will be ultimately responsible for firm's strategic decision-making (Arendt et al., 2005; Tang & Crossan, 2016). Thereby, TMT composition will affect decisions and in turn, firm's long-term performance (Hoffmann et al., 2016). Thus, at the managerial-level we particularly control for '*TMT functional diversity*' and '*TMT educational diversity*'. '*TMT functional diversity*', i.e., the variety of job related knowledge derived from different functional experiences, is taken into account due to the basic assumption of research on TMT functional background: "team members with

backgrounds and experience in different functional areas bring different but complementary knowledge and expertise to their teams" (Bunderson, 2003, p. 458). Therefore, functional background is expected to influence TMT problem solving, decision-making processes and organization performance in the sense of improving the access to external information and the attentiveness to various environmental sectors (Aguilar, 1967; Daft et al., 1988). For its part, *'TMT educational diversity'*, usually established as an indicator of the variety of skills, cognitive processes and basic knowledge embedded in a managerial team (Bantel & Jackson, 1989; Boeker, 1997; Wiersema & Bantel, 1992) may also influence the relationship between family ownership and firm's financial strength. Educational diversity enhances the knowledge base, cognitive abilities and overall problem-defining and problem-solving skills of the group (Bunderson, 2003; Hambrick et al., 1996). In addition, TMT educational heterogeneity may help to better study the industry environment, assess the strengths of the firms, and weigh the pros and cons of strategies (Olson et al., 2006).

At the company-level we control for the *'size of the organization'*, *'age of the organization'* and *'prior financial strength'* due to these variables also might influence the organization's economic situation. We account for *'size of the organization'* (measured as operating income) because of larger organizations might have more organizational slack to engage in exploratory activities (Lavie et al., 2010) and to better analyze processes of change (Boeker, 1997). Moreover, literature claims that big-sized firms are generally more efficient than small-sized ones (Lo & Lu, 2006). Thus, we control for the size of the company as it may positively modify future organizational financial strength. For its part, *'age of the organization'* (years that the organization has been functioning) is included as prior literature has tested that this variable might have a negative influence on the likelihood of strategic changes (e.g., Sánchez-Peinado et al., 2010). Moreover, similar research has found that organizational age will be closely related to consolidated and unalterable routines (Hannan & Freeman, 1989), situations of inertia (Freeman & Boeker, 1984), and limitation of the capacity to adapt to environmental changes (Hannan & Freeman, 1989; Sánchez-Peinado et al., 2010). Accordingly, we control for this variable as it may negatively affect the financial situation of a firm. Finally, *'prior financial strength'* (preceding economic status of the firm) is also taken into account due to its potential connectedness with the future one.

Earlier research states the notion that prior resources or slack can be used to engage in search behavior and to pursue strategic changes which could improve firm's long-term situation (Daniel et al., 2004). In fact, Cyert and March (1963) argue that slack fulfills both a stabilizing and adaptive role by absorbing environmental variability.

Eventually, at the industry-level, we incorporate *'industry innovation intensity'* (i.e., firm's R&D expenses divided by its sales) to seize industry's average degree of innovation. We capture this variable as a proxy of environmental dynamism, as this closely relates to survival and competitiveness in a particular sector (Covin & Slevin, 1989). In other words, the dynamism or hostility of an environment will characterize the competence, technological, social, political and economic uncertainty, business climate and level of opportunities for exploit (Dyer & Mortensen, 2005).

4.4. RESULTS

The means, standard deviations and correlations for all variables included in the analyses can be found in Table 7 (see below). Our hypotheses of the effects of family ownership, firm's context of activity and TMT's characteristics on organization's financial strength were tested using multiple hierarchical regressions (see below, Table 8). Variables were centered (re-expressed as mean deviations) before interaction terms were generated. Interaction analysis using the centering procedure is preferable to simpler analyses, because it yields readily interpretable coefficients that are relatively free of multicollinearity. However, we also checked for the presence of multicollinearity in our analyses finding variation inflation factors (VIF) less than 5 for all the parameters (analyses available from the authors on request).

Table 7. Descriptive statistics and correlation matrix

Measures	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12
Dependent variable														
1. Firm's financial strength	579.08	139.59	1.00											
Independent variable														
2. Family ownership	.6000	.4920	–.104	1.00										
Moderators														
3. Internationalization	36.14	29.95	–.251*	–.076	1.00									
4. Diversification	3.03	2.28	–.095	–.220*	.075	1.00								
5. TMT educational level	70.09	42.16	.064	–.069	.078	.095	1.00							
6. TMT average age	42.54	6.36	.029	–.064	.175	.191	–.135	1.00						
Control variables														
7. Size of the organization	31820.67	72234.13	.461**	.066	–.011	.378**	.209**	.140	1.00					
8. Age of the organization	37.20	28.18	–.027	.271**	.153	–.011	.088	.286**	–.023	1.00				
9. Prior financial strength	620.35	134.03	.412**	–.116	–.291*	–.218*	.063	–.028	.400**	–.009	1.00			
10. Industry innovation intensity	1.22	.7736	.032	–.053	.071	.190	.239***	.021	.041	.008	.058	1.00		
11. TMT functional diversity	.7375	.1203	.064	–.003	–.183	–.054	–.001	.050	.003	.159	.059	.185**	1.00	
12. TMT educational diversity	.3765	.2283	–.031	–.152	.063	.012	.370**	.056	.142	–.056	–.244*	.120	.003	1.00

N = 137
$^{*}p < 0.1$; $^{**}p < 0.05$; $^{***}p < 0.01$ *(two-tailed)*

Source: Prepared by the authors.

4.4.1. Hypotheses tests

Model 1 (Table 8) includes control variables only. These results appear to highlight that firm's financial strength will be higher in bigger organizations ($B = .392$; $p < .05$), in organizations with prior elevated financial condition ($B = .452$; $p < .05$) and in organizations which hold higher levels of TMT functional diversity ($B = .188$; $p < .1$). These findings are not surprising but follow patterns of expected results. Thus, larger organizations are argued to be more efficient than small-sized ones (Lo & Lu, 2006) and to dispose of more slack that will allow them to both engage in more exploratory activities (Lavie et al., 2010) and to better analyze processes of change (Boeker, 1997). Meanwhile, prior positive financial strength is argued to increase the availability of resources by an organization, therefore providing certain slack (Daniel et al., 2004) that could be used to boost the adaptability and long-term situation of the firm (Cyert & March, 1963; Daniel et al., 2004). Finally, organizations with more TMT functional diversity are associated to a better information processing, problem solving, width of perspectives and accuracy of assessments (Aguilar, 1967; Daft et al., 1988; Haleblian & Finkelstein, 1993). As a consequence, we may establish that the financial strength of a company will be likely increased in the presence of these variables.

In Model 2 we include the variable 'family ownership', too. With this, we evaluate the effect of family involvement in the organization on firm's financial strength. Our results indicate that there is a direct positive significant effect ($B = .243$; $p < .05$) of this variable on organization's financial strength. Hence, we are able to support our baseline hypothesis or hypothesis 1 (H1). As we further argue in the discussion section, this supposition is closely related to the distinct functioning that family firms have from non-family ones and in particular to the self-consideration of the former as an asset to pass on to succeeding generations, instead of a temporary income provider (Casson, 1999). In other words, family firms will not be only a source of income but also a context for family activity and embodiment of its pride and identity (Meyer & Zucker, 1989), which will make them invest more efficiently (Gimeno et al., 1997) and employ financing forms with low probabilities of default (Anderson & Reeb, 2003).

In Model 3, 'internationalization', 'diversification', 'TMT educational level' and 'TMT average age' are introduced. None of these variables shows a marginally

significant effect on firm's financial strength though. However, the variable 'family ownership' keeps its direct positive significant effect showed in Model 2 (B = .266; $p < .05$), suggesting that during periods of economic crisis family firms' prospects will be crucial to determine the financial status of a firm, contrarily to the organization's scope of operation or the characteristics of its key-role players. Although we did not formally hypothesize such effects this is not surprising given the maximization of the long-term orientation showed by these firms (Stein, 1988). Put differently, Model 3 indicates that despite the (individual effect of the) context where the firm operates or the characteristics of its management team, family firms' inherent characteristics will overcome any other circumstances when explaining variations in firms' financial performance (Minichilli et al., 2010).

Table 8. Results of linear regression analysis

Measures	Model 1 Control variables	Model 2 Indep. variable	Model 3 Direct effects	Model 4 Interaction effects
Controls				
Size of the organization	.392**	.350**	.322	.414**
Age of the organization	.132	.045	.060	.175
Prior financial strength	.452**	.547***	.558***	.487**
Industry innovation intensity	.076	.123	.171	.182
TMT functional diversity	.188*	.279***	.299**	.354***
TMT educational diversity	– .013	.057	.092	.168
Main effect				
Family ownership		.243**	.266**	1.345
Moderators				
Diversification			.033	– .049
Internationalization			– .106	– .108
TMT educational level			– .026	– .516**
TMT average age			.006	.136
Interaction terms				
Family ownership * Internationalization				– .009
Family ownership * Diversification				– .086
Family ownership * TMT educational				.781**
Family ownership * TMT average age				– 1.719*
R^2	.541	.578	.588	.651
Adjusted R^2	.495	.531	.508	.562
R^2 change	.541***	.037**	.010	.063**
F-value	16.221***	16.526***	9.826***	9.547***

N = 137
Dependent variable: Firm's financial strength
*Standardized coefficients are shown; *$p < 0.1$; **$p < 0.05$; ***$p < 0.01$ (one-tailed)*

Source: Prepared by the authors.

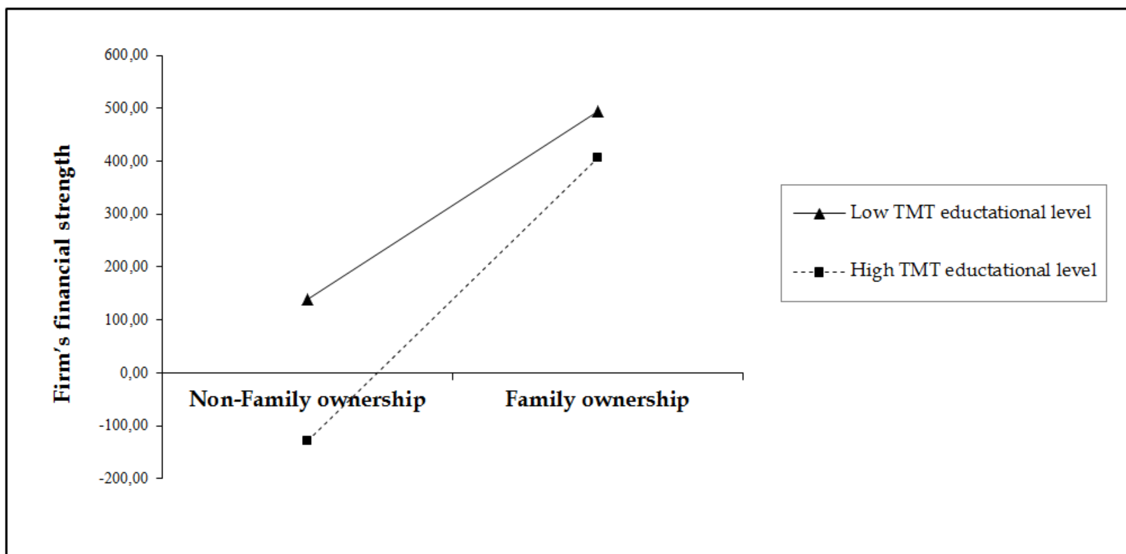
In Model 4, we test for the interaction effect of 'internationalization', 'diversification', 'TMT educational level' and 'TMT average age' with the variable 'family ownership' on organization's financial strength. With this, we intend to interpret and contextualize H1. Our results, however, indicate that there is no conditional significant effect between the first two interactions ('family ownership'*'internationalization' and 'family ownership'*'diversification') and the firm's financial condition. Hence, we are not able to support hypotheses 2 and 3. This would denote that the context where the firm is embedded does not affect family firms' longer outlook for survival (and therefore their financial strength). Several argumentations may be made for explaining these findings. For instance, we illustrate that the high cost to undertake both strategies could generate a neutral influence on firm's financial strength (Wagner, 2004), therefore generating a non-significant effect for these interactions. In the discussion section, we extensively come back to this matter providing further potential explanations for these results.

In hypothesis 4 (H4) we anticipated that TMT educational level would negatively moderate the existing relationship between family ownership and firm's financial strength. However, our results show a significant positive interaction effect ($B = .781$; $p < .05$; Table 8, Model 4). Nonetheless, before stating that our hypothesis is not supported we must represent graphically this interaction (Preacher et al., 2006). Thus, by means of Figure 9 (see below) we plot the effect of family ownership on firm's financial strength for high versus low TMT educational levels (note that high and low refers to mean +/- one standard deviation in Figure 9).

Figure 9 shows that the slope of the relationship between family ownership and firm's financial strength is less pronounced for TMTs with low educational levels than for TMTs with high educational levels. From this observarion we may make four points. *First*, we can assume that the interaction of family firms with the level of education of the TMT acts as a better predictor of firm's financial strength than the sole family ownership. This leads us to point *two*, through which we may understand the reason of the positive significant interaction obtained in Model 4 (Table 8) as the slope for highly educated TMTs is steeper than for low ones. *Third*, and focusing our attention on the difference among TMTs with high educational levels (represented with a dotted line) and low educational levels (represented with a continuous line), we

may perceive that the first ones will generate lower levels of financial strength. As a consequence, H4 would be supported. *Finally*, Figure 9 also helps to corroborate H1 – where we stated that family firms had greater levels of financial strength than non-family firms; and our prior argumentations of Model 3 (Table 8) – where we suggested that family firms' prospects would be crucial to determine the financial status of a firm despite the specific features hold by the organization. The former may be observed by the existing divergence between the left (non-family firms) and right part (family firms) of Figure 9. Meanwhile, the latter is depicted by the lack of differences showed between family firms with high vs low TMT educational levels (see right part of Figure 9).

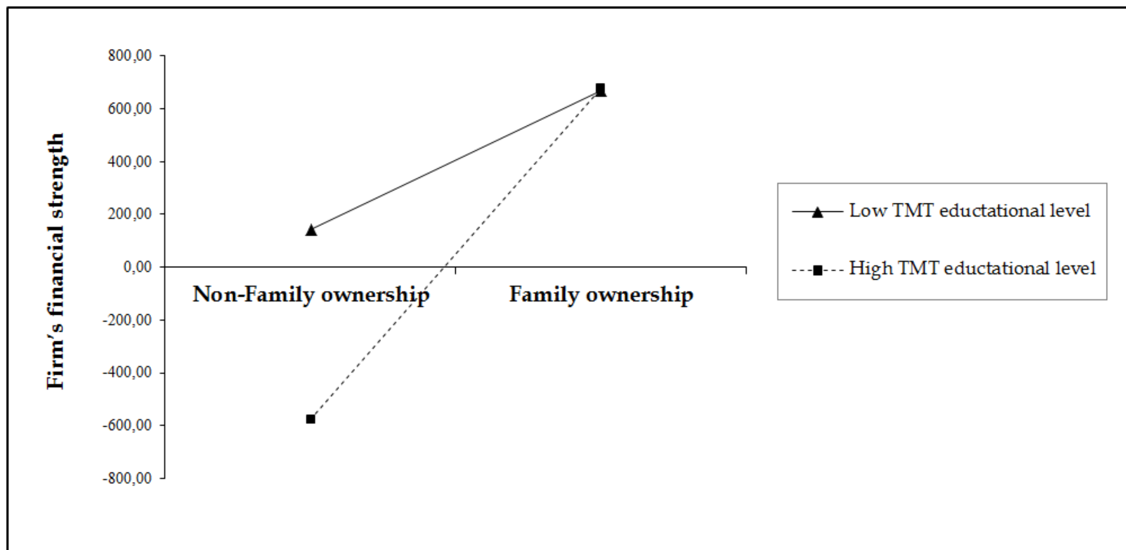
Figure 9. The interaction of TMT educational level and family ownership on firm's financial strength



Source: Prepared by the authors.

These results become even more evident in Figure 10 (see below), which basically delineates the same interaction but for more 'extreme' values of TMT educational level (i.e., mean +/- two standard deviations).

Figure 10. The interaction of extreme values of TMT educational level and family ownership on firm's financial strength



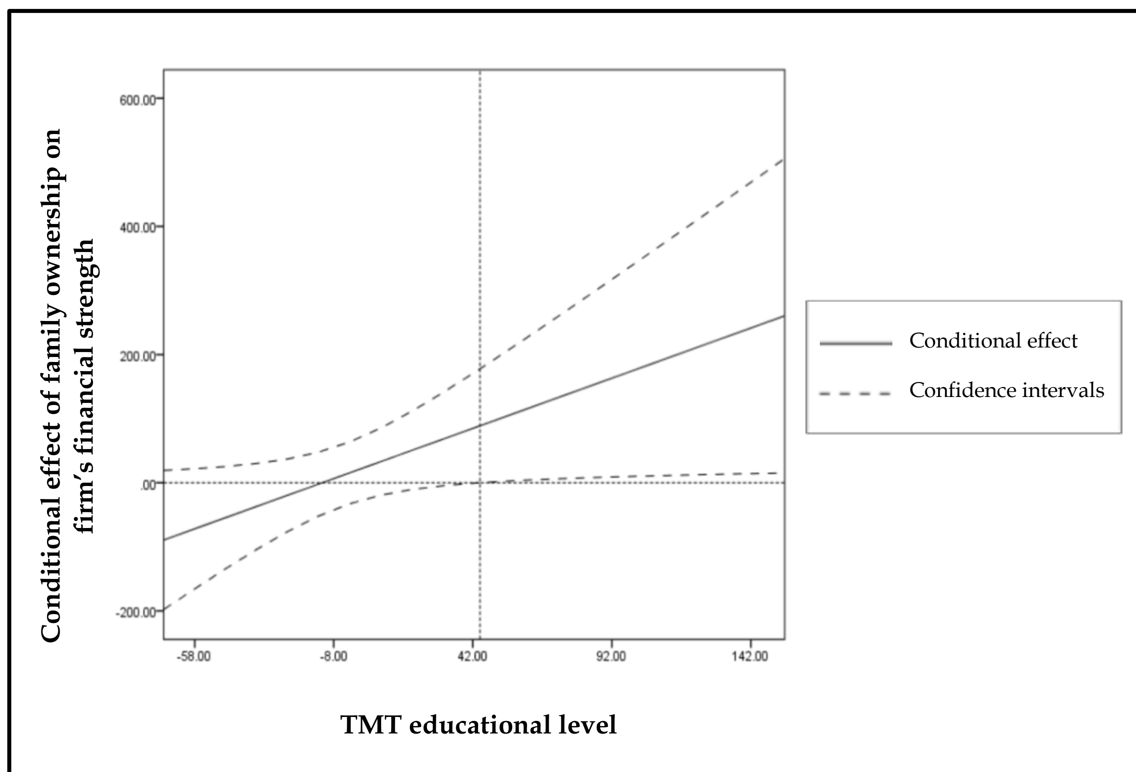
Source: Prepared by the authors.

To more systematically and comprehensively assess this interaction effect, in the present study we applied the Johnson-Neyman technique. In particular, the use of this technique allows defining the regions in which the coefficient of family ownership is significantly positive or negative, conditional upon the educational level of the TMT (see Preacher et al., 2007). Hence, we achieve to obtain a different approach to simple slopes captured by Figure 9 and 10. Figure 11 (see below) plots the conditional effect for the whole range of our moderating variable – TMT educational level – with a 95%-confidence band (full analyses are available from the authors upon request). Note that for this analysis, we standardized all variables. Consequently, the interaction effect will be significant when the confidence intervals (represented by the dotted lines in Figure 11) are either both above or both below zero – the former representing a positive conditional effect and the latter a negative one. To facilitate its understanding we have drawn a vertical line representing the boundary of the region in which the interaction coefficient turns significant (at the .05-level).

Based on the Johnson-Neyman technique, it appears that family ownership has a positive effect on firm's financial strength for managers who have high educational levels. Additionally, this positive effect seems to be the only significant range for the interaction as the conditional effect turns insignificant (at the .05-level) when TMT

educational level reaches the value 44,62 (for the standardized variable). Hence, Figure 11 would suggest that only high TMT educational levels (as opposed to moderate or low levels of this variable) would act as (positive) moderators for the relationship between family ownership and firm's financial strength.

Figure 11. Coefficient of family ownership conditional upon TMT educational level



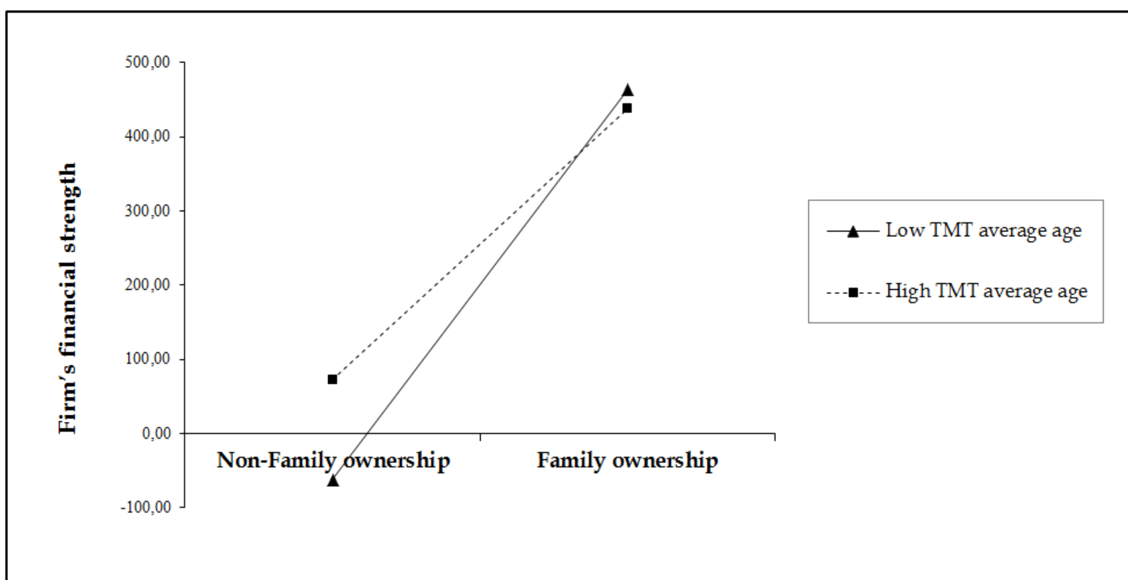
Source: Prepared by the authors.

These results do nothing but complement the ones obtained previously. Thus, the findings obtained through the Johnson-Neyman technique suggest that in the presence of an elevated educational level, the fact of being a family firm will have a positive significant effect on firm's financial strength. In other words, among managers with higher educational levels, the financial strength obtained by family firms will be greater than the ones obtained by non-family firms, i.e., there will be significant differences among them. In particular, we argue that these differences will be given by family firms' inherent prospects to invest more efficiently (Daily & Dollinger, 1992; Fama & Jensen, 1983), take less risk-averse options (Anderson & Reeb, 2003), rely less

on debt (Jensen, 1986), look for a higher continuity of the firm (Gimeno et al., 1997), etc. which would reduce the negative effect over firm's financial strength promoted by highly educated managers in non-financial firms. Nevertheless this conjecture is not something new, but statistically confirms what Figure 9 and 10 previously represented such as a steeper slope for highly educated TMTs. In the discussion section, we will extensively come back to this matter in order to better understand the effects shown by this conditional interaction.

In hypothesis 5 (H5) we prognosticated that the average age of the managerial team would positively moderate the existing relationship between family ownership and firm's financial strength. Nevertheless and oppositely to what proposed in this hypothesis, we find a marginally significant negative interaction effect (B = -1.719; $p < .1$; Table 8, Model 4). However, and as we did with the prior case, we will represent graphically this interaction effect to facilitate its interpretation and check its impact. We do so through Figure 12 (see below). Here we plot the effect of family ownership on firm's financial strength for high versus low levels of TMT average age (note that high and low refers to mean +/- one standard deviation in Figure 12).

Figure 12. The interaction of TMT average age and family ownership on firm's financial strength



Source: Prepared by the authors.

Figure 12 shows that the slope of the relationship between family ownership and firm's financial strength is less pronounced for TMTs with higher levels of average age than for TMTs with lower levels of this variable. Similarly to what we did with the previous moderation analysis, from this observation we will be able to make four points. *First*, we can assume that the interaction of family firms with the average age of the TMT acts as a better predictor of firm's financial strength than the sole family ownership. *Second*, we may then comprehend the roots of the negative significant interaction obtained in Model 4 (Table 8) as the slope for 'older' TMTs is less positive than for 'younger' ones. In the *third place*, we may also identify that 'older' managers (represented with a dotted line) will generate higher levels of financial strength than managers with lower average age (represented with a continuous line) – note that due to the nature of both characteristics (TMT educational level and TMT average age), this situation will be just contrary to the one obtained for high vs low educational levels of TMTs. As a consequence, H5 would be supported. *Eventually*, through Figure 12 we will be also able to confirm what H1 and Model 3 (Table 8) advocated. H1 stated that family firms had greater levels of financial strength than non-family firms. This may be observed by the existing divergence between the left (non-family firms) and right part (family firms) of Figure 12. Meanwhile, in Model 3 (Table 8) we determined that family firms' prospects would be decisive to outline the financial status of a firm despite the specific features hold by the organization. In this case, the lack of differences depicted among family firms with high vs low levels of TMT average age (see right part of Figure 12) help to support this assumption.

In parallel to the analysis of the previous interaction, here we also applied the Johnson-Neyman technique with the aim of better understanding this conditional effect (see Preacher et al., 2007). Nevertheless, this statistical analysis showed no significant areas for the whole range of the moderating variable (full analyses are available from the authors upon request). This result is not surprising since if we look at the outcome provided by Model 4 (Table 8), we may observe that the interaction among these variables is 'just' marginally significant ($B = -1.719$; $p < .1$). Hence, the use of Johnson-Neyman technique would do nothing but enrich our analysis helping us to understand the weakness presented by this conditional effect.

4.4.2. Additional analyses and robustness checks

To further explore our results, we performed some additional analyses and robustness checks. In the first place, it could be proposed that some of the control variables used in our study, such as TMT functional diversity and TMT educational diversity, could be also considered as moderators of our model. In fact, our empirical findings provide initial partial support for this reasoning, as evidenced by the positive and significant correlation existing between TMT educational level and TMT educational diversity (.370; $p < .05$; Table 7). To explore this possibility, we redid our analyses. Firstly, we tested whether *TMT functional diversity* and *TMT educational diversity* presented more powerful marginal effects as moderator variables than *TMT educational level* and *TMT average age*. To do so, we exchanged both groups of variables establishing TMT educational level and TMT average age as control variables, while TMT functional diversity and TMT educational diversity were allocated as moderator variables. Our results, however, showed that although family ownership kept its direct positive significant effect on financial strength ($B =.266$; $p < .05$), no significant conditional effects were found in this model. This implies that TMT functional diversity and TMT educational diversity will generate better outcomes placed as control variables, otherwise partially distorting family firm's conditional effects on firm's financial strength (analyses available from the authors on request). Additionally, the use of TMT functional diversity and TMT educational diversity as moderators of our model diminished the robustness of our analysis (from an adjusted R^2 of .562 to .476), therefore confirming the prevalence of our original model.

Secondly, and based on the existing significant correlation between *TMT educational level* and *TMT educational diversity* someone could argue that both variables could be exchanged. To evaluate this situation, we placed TMT educational diversity as moderator of our model, while TMT educational level was allocated as a control variable. Similarly, our results showed a positive effect of family ownership on financial strength ($B = .222$; $p < .05$). Meanwhile, no significant conditional effect was found over TMT educational diversity (and, neither over internationalization and diversification). For its part, TMT average age kept its marginally negative effect ($B = -1.995$; $p < .05$). Moreover, the exchange of these variables was also found to reduce the robustness of our model (from an adjusted R^2 of .562 to .515). Therefore, we may also

confirm the prevalence of our original model in this situation (full analyses can be requested from the authors).

Thirdly, we evaluated our default model removing *TMT educational level* and placing *TMT educational diversity* instead (as a moderator variable). We did so to check whether the correlation level between TMT educational level and TMT educational diversity generated negative effects on our analysis, and therefore promoted less powerful results. Nonetheless, we anticipated that the relatively low level of correlation between both variables (.370; $p < .05$; Table 7) would not be worrisome, as several authors such as Frost (2013) had previously stated that only values over .7 could be considered as dangerous. The results obtained supported these assumptions. Thus, they did not show relevant differences from the findings that we have just showed in the prior paragraph. In this way, family ownership was found to maintain its significance (Β = .222; $p < .05$), while no significant conditional effect was found over TMT educational diversity (and, neither over internationalization and diversification). Meanwhile, TMT average age also hold a marginally negative effect (Β = -1.989; $p < .1$). Additionally, the representativeness of the model was similarly found to be reduced as its adjusted R^2 went down from .562 to .525 (full analyses can be requested from the authors). Despite these results and to further dig into this matter, we redid our analysis just removing *TMT educational diversity* from the group of control variables (i.e., *TMT educational level* was kept as moderator variable of our model). Our results showed a similar pattern of results than in prior scenario (analyses available from the authors on request). Hence, this again substantiated the strength and adequacy of our variables used.

In order to check for the robustness of our findings we evaluated the appropriateness of the span of time covered by our dependent variable (analyses available from the authors on request). In particular, as mentioned in the theory and hypotheses section, in our study we chose to assess *firm's financial strength* as an average of the years 2009-2010. We did so and did not take economic fortitude of a single year (e.g., 2009 or 2010) for two main argumentations. First, because both years have been jointly considered as a turning point of the Spanish (and international) crisis by many scholars and international reports (Acharya, 2009; Instituto de la Empresa

Familiar, 2015; International Monetary Fund, 2009). And second, because single-year assessment could contain specific variations which could affect to the veracity and feasibility of our research. Nevertheless, despite these concerns and for the sake of robustness, we executed two independent regressions where firm's financial strength was estimated both in 2009 and 2010. Although in the same line, the results obtained here were slightly less convincing than the reported ones in Table 8 – which is not surprising given the previously mentioned specificities among single-year assessments. For instance, this may be observed in the results achieved when using firm's financial strength for the year 2009 as a dependent variable and regressing family ownership on it: $B = .130$; $p < .05$ (vs prior results: $B = .243$; $p < .05$). Regarding the moderator variables, we similarly found less powerful results in this model. Hence, for example, when using firm's financial strength for the year 2009 as a dependent variable, the moderation effect of TMT educational level was found to present a lower effect both in effect size and significance level as compared with the reported one ($B = .610$; $p < .1$ vs prior results: $B = .781$; $p < .05$). Thus, we may affirm that poorer results would be obtained by using single-year analyses.

Likewise, resembling evaluation was carried out by assessing firm's financial strength as an average of the years 2012-2013. We did so due to, specifically, this period of time has been repeatedly considered as a second turning point of the Spanish crisis by several scholars (e.g., Montesinos et al., 2014) – mostly attributed to internal factors such as the housing bubble and the real estate crisis. Hence, it could be argued that the effects of family ownership, firm's context of activity and TMT's characteristics could also have a relevant impact on the financial strength obtained by the organizations of our sample in these years. Our findings, however, showed less convincing outcomes as compared with the reported ones in Table 8. Thus, for instance, although we still found a significant positive effect of family ownership on firm's financial strength, this effect appeared to be less powerful ($B = .184$; $p < .1$ vs prior results: $B = .243$; $p < .05$). This lower strength in the results was even more clarifying when evaluating the moderator variables. Here, no significant interaction effects were found. Moreover, this situation was supported when analyzing the representativeness of the model which showed an adjusted R^2 of .293 (vs prior results: adjusted $R^2 = .562$) (full analyses are available from the authors upon request). These results would be explained by the existing time

distance about the independent and moderator variables, and the financial strength obtained by an organization during the period 2012-2013. Consequently, we may state that to better understand the financial situation of the firms during this second period of crisis, we should focus our attention on updated values of our variables.

4.5. DISCUSSION

In order to understand family firm's decision-making, Basco and Pérez-Rodriguez (2009) state that both the business system and the family system of a family firm should be taken into account, because both interact (Habbershon et al., 2003; Stafford et al., 1999). Emotions may be present in all types of firms, but are likely to be more dominant within family firms (Baron 2008; Gomez-Mejia et al., 2011). More specifically, several studies acknowledge the intermingling of emotional factors (originated from family involvement) with business factors as a distinctive attribute of family firms that should be taken into account in family firm research (Berrone et al., 2012; Eddleston & Kellermanns, 2007; Tagiuri & Davis, 1996). Therefore, in this chapter, we aimed to contribute to further unravel these specificities of family businesses[21] analyzing its effect on financial strength and particularly under the last financial crisis, which according to several practitioner and scholars reached its most virulent peak during 2008 and 2009.

Using a dataset comprising both archival and questionnaire information of 137 Spanish medium-sized firms, we found general support for our hypotheses. In particular, we found that family ownership positively affected the financial strength obtained by an organization during this time lapse. We argue that this finding is in line with family firm characteristics and peculiarities such as their more elevated risk aversion (Anderson and Reeb, 2003), higher efficiency (Daily & Dollinger, 1992; Fama & Jensen, 1983), less dependence on debt as a form of financing (Jensen, 1986), will to continue in business (Gimeno et al., 1997), prioritization of the objectives of the company to the individual (McConaughy, 2000), relevant investment in their firms in terms of both financial investment, prestige and human capital (McConaughy et al.,

[21] Which in Spain, where our dataset belongs to, represent 88.8% of the organizations (Instituto de la Empresa Familiar, 2015).

2001), etc. But more generally, to the emotional component of family firms which may be reflected in the preservation of the socioemotional wealth that, as previously stated, refers to the affective needs such as the ability to exercise family control and the perpetuation of the family dynasty (Gomez-Mejia et al., 2007). In fact, this latter point may be reflected by the non-munificent context where our sample is set, therefore enhancing the effects of our relationship.

Additionally, following Hofer and Schendel (1978) and Sharma et al.'s (1997) research we argue that considerable understanding could be gained by appending strategic management insights on the family firm research approach. In this vein we hypothesized that firm internationalization and diversification would influence the relationship between family ownership and firm's financial strength. More specifically, we established that these variables would potentially minimize the risk of firms and would increase their chances for success due to their access to heterogeneous markets – which will provide them bigger opportunities of growth and income (Buch et al., 2014; Goetzmann et al., 2005; Moral-Pajares et al., 2015; Sanchez-Bueno & Usero, 2014). However, we did not find support for these hypotheses (H3 and H4). Several possible explanations may arise from these results. The first one is related to the own characteristics of this crisis period (where we test our hypothesis): its global influence. Hence, according to International Monetary Fund (2009) this time lapse generated a shared crisis in credit, mortgage and trust, high levels of uncertainty, raised variability, relative scarcity of all type of resources, fewer strategic options and an environment of fierce competition. Consequently, despite operating in diverse businesses, sectors or markets, family organizations could not have experienced any difference due to the existent economic and financial homogenization during those years.

The second one could be related to the concept of socioemotional wealth. Thus, as family firms have a longer outlook – which imply a more vital vision into firm's intervention (Lee, 2006) –, the presence of non-munificent environments and its corresponding negative performance figures could affect their aim of the perpetuation of the family dynasty (Gomez-Mejia et al., 2007). Hence, this could cause that these firms tried to operate, sooner than later, in other markets such as the international ones. However, several scholars have established a negative relationship between internationalization speed and firm-level financial performance arguing that the high

cost efficiency generated by this process would potentially cause value destruction (Wagner, 2004). Therefore, the interaction of internationalization with family ownership could have generated neutral effects on firm's financial strength represented by a non-significant relationship. Similarly, these neutral effects have been also reinforced by Schmid et al. (2015) who suggest that founding families have to trade off the desire to preserve financial wealth (via diversification or internationalization) with the risk of losing control and endangering their socioemotional wealth.

On the other hand, and based on prior literature about *upper-echelons* theory (Hambrick & Mason, 1984) we also hypothesized that TMT characteristics, and in particular TMT educational level and TMT average age, would influence the relationship between family ownership and firm's financial strength. *Upper-echelons* theorists emphasize the importance of studying the dominant coalition of the organization, and specifically its TMT, due to organizational outcomes (both strategies and effectiveness) are viewed as reflections of the values and cognitive bases of the powerful actors of the organization. Moreover, in the specific context of family firms, TMTs are argued to be even more responsible for strategic decisions (e.g., Chua et al., 1999; Habbershon et al., 2003; Tagiuri & Davis, 1992). Following these propositions, we found support for our H4 and H5. Thus, we provided evidence that the level of education of the TMT negatively moderated the relationship between family ownership and firm's financial strength during non-munificent periods. Therefore, it seems that these actors – which usually possess a better ability to tolerate ambiguity (Wiersema & Bantel, 1992), to absorb new ideas (Barker & Mueller, 2002), to generate creative solutions to difficult problems (Bantel & Jackson, 1989), to adhere to more change and opportunities (Day & Lord, 1992), to opt for less conservative capital structures (Herrmann & Datta, 2005) and to be more confident with investments (Herrmann & Datta, 2005) – will indeed leverage more, which therefore would negatively affect the financial strength presented by their (family) firms. Note that this study is set in a non-munificent context, which is characterized by low opportunities, high levels of uncertainty and variability, scarcity of resources and demand, fierce competition and incremented risk (Acharya, 2009; Instituto de la Empresa Familiar, 2015; International Monetary Fund, 2009). Therefore, we anticipate

that the higher leverage shown by these managers (and especially the one dragged from the prior benevolent cycle) will have an even more relevant negative effect on the current firm's financial strength.

Furthermore, based on the results provided by the Johnson-Neyman analysis, we found that only relatively high educational levels of TMT (positively) moderated such relationship among family ownership and firm's financial strength. This piece of work is rather interesting as complements our prior findings suggesting that when managers have low levels of education the relationship of family ownership and firm's financial strength will not be significant. This would suggest that those with little training will leverage less, despite belonging to a family or a non-family firm, and for that reason, there would not exist significant differences in their firm's financial strength.

However, when managers are highly educated, the financial strength obtained by family firms will be greater than the ones obtained by non-family firms, i.e., there will be significant differences among them[22]. As previously mentioned, we argue that such differences could be explained by family firms' inherent characteristics such as to invest more efficiently, take less risk-averse options, rely less on debt, look for a higher continuity of the firm, etc. which would reduce the negative effect over firm's financial strength promoted by highly educated managers in non-financial firms.

Finally, we also found support for our H5 about the positive relationship that managerial average age exerts on the relationship between family ownership and firm's financial strength during non-munificent periods. Thus, it appears that the more conservative capital structures (Chen et al., 2010), less risk-taken (Barker & Mueller, 2002; Hambrick & Mason, 1984), more prudence with their actions and behavior (Wiersema & Bantel, 1992) and worse ability to organize information effectively (Taylor, 1975) presented by these actors will actually generate lower leverage which will be translated into a positive effect on the financial strength shown by their (family) firms. Note that as with H4, we argue that this study is set in a non-munificent context and as a consequence of their characteristics this lower leverage presented by these actors (and especially the one dragged from the prior benevolent

[22] That is to say, this conjecture would statistically confirm what Figure 9 and 10 previously represented such as a steeper slope for highly educated TMTs.

cycle) will have an even more relevant positive effect on the current firm's financial strength.

However, based on the marginally significant effect of this interaction (B = -1.719; p < .1; Table 8, Model 4), the non-significant results generated by the Johnson-Neyman technique and the visual exploration of this moderating effect where no clear differences were pinpointed among high vs low levels of managerial average age (see figure 12) we cannot undoubtedly make assumptions about its interpretation.

4.5.1. Contributions

With this study, we contribute to the extant literature in several research streams. First, we contribute to the family firm literature by denouncing the fragmentation that exist on the definition of family business, which difficult the replication of studies and the understanding of the implications of every particular type of research. More specifically, we show the two main streams that literature has followed: the involvement approach and the essence approach, and provide some propositions for its reconciliation. Thus, we stand up for measures that collect the involvement and influence of the family into the business. Furthermore, we also take into account that theoretical issues with respect to defining the concept of family firm are still open to debate and therefore, forthcoming research should work in generating a more clear and integrative definitions and measurements of family involvement which allows differentiating between family and non-family businesses. In the next section, we widely come back to this issue to further discuss the limitations of the different measures and specify future research avenues.

Additionally, we also contribute to the family firm literature by assessing whether the characteristics and features which define these companies – that have as its main exponent the socioemotional wealth – are also maintained during periods of economic fluctuation and in particular during the latest economic crisis occurred globally in recent years. To our knowledge, no systematic empirical research exists addressing this question in the literature. Our results support our assumptions that in turn, reinforce that the uniqueness of these firms which comes by its longer outlook for the survival of a firm (Lee, 2006), greater conservatism (Anderson and Reeb, 2003), higher risk aversion (Meyer & Zucker, 1989) but also due to the particular existing

interplay among individual family members as a family 'system' and a business 'system' (e.g., Gersick et al., 1997; Tagiuri & Davis, 1996).

Besides the contributions to family firm literature, the specific context of managers within these companies also leads to several adding to the research domain based on TMT literature. Since the seminal study of Hambrick and Mason (1984) on the *upper-echelons* perspective, research on TMTs has developed itself into one of the most prominent areas in the management research field (Menz, 2012). Furthermore, in the particular context of family firms, TMTs are argued to be even more responsible for strategic decisions (e.g., Chua et al., 1999; Habbershon et al., 2003; Tagiuri & Davis, 1992). Between the amount of TMT studies in family firms, most have studied the effect of family and non-family member presence in the TMT on several team and firm related aspects such as TMT benevolence toward the CEO (Cruz et al., 2010), pay dispersion in TMTs (Ensley et al., 2007), entrepreneurial orientation (Sciascia et al., 2013), firm performance (Ling & Kellermanns, 2010; Minichilli et al., 2010), management succession processes (Hershon, 1975), divergences in the psychological characteristics among owner-manager (Day, 1980), etc. However, as stated by several scholars (e.g., Menz, 2012), TMT research in the context of family firms still remains scarce. In this study, we intend to contribute to this matter not so much looking to the effects of the composition of the team (which from our understanding has already been widely screened) but to the effects of the characteristics of such teams on a firm-level. More particularly, we aim to look for the modifications in the results (in our study measured by the financial strength) obtained by family firms when one of those characteristics is present in the team, i.e., for instance, we argue that family businesses that have on average older managers in their teams will generate even higher levels of financial strength[23] due to its characterized lower intention to leverage. As expected we do find support for our results but we also find out that these characteristics (in our study TMT average age and TMT educational level) have just a marginal effect among family businesses. That is to say, despite the presence of high or low values of these TMT characteristics, the financial strength shown by these organizations keeps stable. However, within non-family firms, we observe that TMT characteristics do matter in

[23] Note that H1 already stated that family firms generate higher levels of financial strength (see results section).

affecting organizational outcomes. Consequently, we suggest that family firms' perspectives and idiosyncratic characteristics seem to rule the behavior of these organizations, prevailing in this way over different characteristics of their management team.

Finally, we add to the organizational ecology literature which establishes that firm discontinuance must be seen only as a consequence of environmental conditions. Therefore, just two options are conceived in this research stream. However, following Gimeno et al.'s (1997) work we propose to observe this variable as a choice affected by several variables instead of as a given external consequence. In particular, we do so by the use of firm's financial strength, that although a proxy of firm value, it may be also considered as a pre-determinant of the potential shutdown of an organization (Gimeno et al., 1997). Consequently, with this variable we achieve to present a relevant improvement for the palette of options and thereby complement the existing literature.

4.5.2. Limitations and future research avenues

Like any research, ours has limitations that can set the stage for future research avenues with the ultimate objective of pushing the field towards more rigor and impact.

First, our results although relevant and significant for the family firm literature, must be viewed carefully because we do not properly distinguish between the degree of ownership concentration, managerial ownership, and family involvement. Therefore, future research is needed in order to fine-grained these results and obtain more information upon the degree of these variables in our study. In fact, determining whether family involvement affects performance is harder than it appears at first glance. Put otherwise, differences in performance between firms where ownership control belongs to families and firms where ownership control does not belong to families cannot be unequivocally interpreted as being caused by family ownership; similarly differences between firms with controlling ownership held by families and firms with controlling ownership not held by families, cannot either be interpreted (McConaughy et al., 1998). Thus, as previously explained, in order to open the deck of results and integrate them, research on this matter should generate similar definitions and measures of family ownership which collect the degree of involvement and

influence of the family into the business. This difficulty extends to testing for differences caused by family involvement in family firm research which rarely has been analyzed in the literature.

Second, related to the previous point and following Astrachan et al. (2002) research, scholars could further analyze the differences between dichotomous and continuous way of assessing family involvement within an organization. This idea would allow literature to dig into the definition of family businesses and would help to clarify an issue that is still open to debate. Differences should be identified and explained through both theory and practice.

Similarly, an interesting trajectory for future research would be to capture the drivers of the preservation of such 'familiness' (also called socioemotional wealth or involvement/influence of the family within the firm) or to examine differences between family firms' characteristics, based on the importance of the preservation of such 'familiness'. Thus, we argue that a more in-depth understanding of the concept would increase the explanatory value of family firm-oriented research.

Family firm research has revealed that family firms represent a highly heterogeneous group with different levels of family involvement and emotional attachments to the family firm (Berrone et al., 2012). That is to say, 'familiness' is argued to not be something homogenous. However, within these dissimilarities among organizations it has been supposed that each family member hold a relative equal level (Miller & Le Breton-Miller, 2014). Recent studies are opposed to this, showing that the level of emotional attachment to the family firm differs between family members (Berrone et al., 2012) and that even non-family members can also possess strong emotional endowments to the family firm (Miller & Le Breton-Miller, 2014). All this suggests what we have already pinpointed in the first point: univariate measures may not faithfully represent the reality of family firm's involvement. However, we argue that what truly underlies from this assumption is that different levels of 'familiness' among members of a firm can result in fundamental differences of opinion about the course of action and strategies followed by the firm, and thus increase the likelihood of relational tensions that may therefore hamper decision-making. A fruitful research avenue would be to test first the existence of these differences; and second to check whether the potential friction and conflicts originated from such dissimilarities in

family involvement may actually affect the quality of the decisions made by a TMT. Jehn et al. (1999) present incipient evidence for this matter in a study of ninety-two work teams of large organizations. In particular, they find that value diversity is negatively related to objective team performance measures such as actual group performance and group efficiency, and to the affective performance measures satisfaction, intention to stay, and commitment.

A final limitation of our research is its cross-sectional design. Although cross-sectional designs in this type of research are currently standard practice, claims about causality cannot be substantiated with such a method. However, our study focuses on interactions which are difficult to explain with reverse causation logic (Cummings, 2004). We used family ownership to explain the financial strength showed by a firm. Thus, we argue that the own characteristics inherent to these type of firms would increase the financial position of such firms. The reverse causation logic where the decision to become a family firm is derived by the financial strength presented by a firm is rather unlikely for obvious reasons, which eases endogeneity concerns.

In sum, we view the current analysis as illustrative rather than definitive and hope to encourage further replication in samples with different width and applicability, as well as set the stage for many others studies to come.

CHAPTER 5:
Conclusions

5.1. OUTLINE

The purpose of this doctoral dissertation is to gain more insights in the decision-making processes and, more particularly, in better understanding how managerial decisions are made and in which degree they rely on objective vs perceptual indicators. As no decision can be evaluated without its consequences, in this research we also intend to unravel the reasons why some organizations have better (financial) results than others and, especially, during the last financial crisis occurred globally. Based on three independent studies, this dissertation sheds light and fills gaps in several literature streams. This final chapter summarizes the empirical findings of each independent study and discusses the main theoretical and practical contributions. Finally, some important suggestions for future research are outlined.

5.2. EMPIRICAL FINDINGS

Findings of Chapter 2

The goal of this chapter was to deepen the knowledge upon the intermediate hidden mechanisms whereby performance feedback cues generate specific reactions in organizations and specifically, to accentuate the relevance of evaluating the effects of executives' perceptions and cognitions in these strategic decision-making processes.

In particular, we argued that contrary findings found in the literature (Bowen et al., 2010; Shinkle, 2012) about performance feedback consequences could be caused due to the way scholars have measured this variable, almost fundamentally using objective performance figures (Lawrence, 1997; Ocasio, 1997). In fact, we stated that as performance feedback theory is essentially a cognitive theory (Labianca et al., 2009; Shinkle, 2012), a more comprehensive model of how decision makers assess organizational performance and respond to it should go beyond this objective assumption. In this sense *managerial complacency* with firm's results, a cognitive variable which combines the traditional (objective) measurement of performance feedback with the CEO's satisfaction (or perception) with these results, was proposed as a better way to collect the reality and the organizational behavior.

Our findings indicate that managerial complacency presents a negative effect on organizational change behavior. Therefore, they confirm that firm's strategic change

will be enhanced (just) in front of low managerial levels of complacency with organizational results, disregarding the sign of the objective performance feedback obtained by the firm. Additionally, in this study we also explored some of the determinants of managerial complacency finding that TMT functional diversity negatively affects this variable; while TMT tenure has a positive effect on the level of complacency shown by managers in their evaluations. Overall, by incorporating insights from a cognitive approach, this chapter builds upon recent efforts to advance performance feedback theory (Greve, 2003).

Findings of Chapter 3

The objective of this chapter was to also contribute to performance feedback literature through a critique of the use of objective cues to determine subsequent strategic change.

Particularly, it proposed to individually consider *CEO's satisfaction with performance* as a direct measure of performance feedback or 'attainment discrepancy' (Haleblian & Rajagopalan, 2005) instead of using a combination of it with objective values. To do this, it was provided a comprehensive theoretical review of the significance of managerial satisfaction, its impact and its potential relationship with objective measures of performance feedback. Our findings confirm the superior explanatory power of this variable as opposed to the use of the firm's relative objective performance.

Furthermore, we also contribute to the performance feedback theory by showing that the effects of performance feedback on intended changes are not universal, but contingent upon contextual conditions – here: performance compared to industry. As a consequence, a wider palette of options was generated. Thus, for instance, our results establish that dissatisfaction will not always lead to higher intentions to change because if objective performance signals that the current strategies are paying off (as reflected in the organization's performance compared to the industry), it might lead to a lower magnitude of intended changes as it is more 'rational' to keep on acting in the same way you were doing before. Similarly, satisfaction will not always be related to lower intentions to change, hence it might

induce an upward strive and a boost in the CEO's self-confidence, and consequently generate an increase in changes pursued by the firm.

Findings Chapter 4

In this chapter, the goal was to understand why some organizations obtained better financial results during the last financial crisis than others and whether family ownership affected this situation.

To do so, it started by defining family firms and highlighting its strong emotional component in their decision-making process which clearly separated them from other organizational forms (Gomez-Mejia et al., 2011). This emotional component was argued to be reflected in its will to preserve the socioemotional wealth of the firm which according to Gomez-Mejia et al. (2007) referred to the affective and non-economic needs such as the ability to exercise family control and the perpetuation of the family dynasty. Our results indicate that family ownership will affect positively the financial strength obtained by an organization and as we tested this phenomenon under a non-munificent context (which could affect the future and viability of the firm) we argue that these findings would do nothing but support our prior definition of socioemotional wealth.

Furthermore, we found that this relationship is not influenced by the internationalization or diversification of the firm. Contrarily, we found evidence that the managerial average age positively moderate this interaction due to the lower level of leverage presented by these actors; while managerial educational level do the opposite. In a further analysis, we also found that there were not significant differences among those managers who had little training and belonged to either a family or a non-family firm. This suggested that despite belonging to one type of firm or the other, these managers would leverage less than highly educated ones and for that reason, there would not exist differences among this group. However, when managers were highly educated, the financial strength obtained by family firms would be greater than the ones obtained by non-family firms, i.e., there would be significant differences among them. We suggest that such differences could be explained by family firms' socioemotional wealth which would reduce the negative effect over firm's financial strength – actually promoted by highly educated managers in non-financial firms.

Related to this aspect, an interesting finding to highlight is that TMT characteristics seem to have just a marginal effect among family businesses. However, within non-family firms, we observe that TMT characteristics do matter in affecting organizational outcomes. Thus, overall, this chapter provides evidence to determine that the perspectives and idiosyncratic characteristics of family firms seem to govern the behavior of these organizations, prevailing over different characteristics of their management team, scope of action or economic context.

5.3. THEORETICAL IMPLICATIONS

In this section, the main theoretical contributions of this doctoral dissertation are summarized. More particularly, this dissertation contributes to several streams of literature that we will analyze next.

Our first contribution could start with the following question: how do managers react to 'attainment discrepancies' in their organizations' performance? Inspired by the *Behavioral Theory of the Firm*'s, scholars have argued that (only) when performance falls below a certain aspiration level, CEOs intend to engage in new strategic initiatives. However, empirical evidence on this issue is ambiguous and inconclusive. Thus, we attend to this puzzle and contribute to the performance feedback literature by denouncing the common practice to proxy 'attainment discrepancies' by simple comparisons of prior performance with industry mean performance and/or the organization's historical performance. In particular, we show that the use of cognitive variables such as the *managerial complacency* or the *satisfaction* with firm's results is superior in predicting strategic intended change as they allow to better capture managerial interpretations of performance feedback. As a consequence, different interpretations of 'attainment discrepancies' could be able to be obtained, which may have important implications for some of the key predictions made by the conventional performance feedback research and thus, become source of reinterpretation of their expected responses.

With this, we build upon recent efforts to advance performance feedback theory (Greve, 2003).

Secondly, we also contribute to the performance feedback literature by showing that the effects of 'attainment discrepancy' on intended changes are not universal, but contingent upon contextual conditions. In this way, we show that a feeling of dissatisfaction generated by a high 'attainment discrepancy' will not always provoke higher intended strategic changes as a motive of fixing the current situation. However, whether there are some positive contextual conditions (such as a performance of the firm above the industry mean), strategic change could not be promoted due to the confirmation of the accuracy of the current strategies followed by the firm. In a similar way, despite obtaining a high satisfaction, intended strategic changes could be promoted when observing that the firm is performing above the industry mean, which could could instigate self-confidence and efficacy beliefs and, subsequently, proactive behaviors such as strategic changes (Chatterjee & Hambrick, 2011; Haleblian & Rajagopalan, 2005; Mahto & Khanin, 2015). With these findings, we are able to reconcile some of the apparently contradictory perspectives in the performance feedback literature, such as the classic BTF view of '*problemistic search*', Labianca et al.'s (2009) notion of '*striving aspirations*', and Chatterjee and Hambrick's (2011) '*capability cue*' perspective. Hence, rather than contradictory, we argue that these perspectives are complementary and context-driven.

Our third building block of theoretical contributions also relates to performance feedback literature. As previously mentioned scholars do not appear to come to an agreement in terms of reporting homogeneous evidence in this matter. One of the causes of such results may be grounded on the use of distinct or, even more remarkably, distal variables of performance feedback consequences (Ketchen & Palmer, 1999; Shinkle, 2012) as can be *risk-taking, innovation, R&D expenditures,* etc. (Chatterjee & Hambrick, 2011; Chen, 2008). Following this argumentation, some authors such as Holmes et al. (2011) and Schillebeeckx et al. (2016) have questioned the use of these variables due to its difficulty and distance to reflect the decisions that organizations' key decision makers actually make based on organizational performance feedback. Consequently, with the aim of solving this situation and reducing the noise in the analysis of our hypotheses, in this study we propound to measure the *intentions to change* (cf. Greiner & Bhambri, 1989; Sánchez-Peinado et al., 2010) instead of the *actual change.* This point of view is not new in the literature, as

Schillebeeckx et al. (2016) do something similar by analyzing the *preference to collaborate* instead of *actual collaboration*, stating that "preferences that do not result in established ties remain hidden from investigation so that existing ties are a poor proxy for tie-formation intention" (Schillebeeckx et al., 2016, p. 1494). In addition, the use of the *intention to change* in place of the *actual change* allows collecting a broader and richer variable (as opposed to, e.g., only changes in specific investments such as R&D) due to the possibility of analyzing a higher number of domains or categories of change (see methods section of Chapter 2 or Chapter 3). Consequently, we indicate that scholars need to be careful in operationalizing their dependent variable when assessing reactions to 'attainment discrepancies' (see also Kacperczyk et al., 2015), as many types of strategic change trajectories could be studied (Hailey & Balogun, 2002).

In the fourth place, our research also complements performance feedback literature with ideas from the *upper-echelons* research tradition, which emphasizes the relevance of managers' values, perspectives and experiences on strategic decision-making processes and organizational outcomes (Bantel & Jackson, 1989; Hambrick & Mason, 1984). However, to predict these variables the extant research has typically focused on managers' observable characteristics of management teams (such as demographics or functional experiences) and has rarely considered managerial cognitions and perceptions explicitly – even though the latter are actually assumed to act as perceptual filters of reality and therefore could generate richer interpretations of the decision-making processes (Cho & Hambrick, 2006; Hambrick, 1994; Lawrence, 1997). Our study addresses this dearth of research by analyzing how managerial perceptions, and more specifically the *managerial complacency or CEO's satisfaction* with firm's results, affect organizational strategic response. As a consequence, our findings allow us to further substantiate the explicative value of these variables (Cho & Hambrick, 2006; Hambrick, 1994; Lawrence, 1997) and cognitive implications for strategic choices (Herrmann & Datta, 2002).

Furthermore, our study also adds to the multi-lens perspective of strategic change (Haleblian & Rajagopalan, 2005; Rajagopalan & Spreitzer, 1997) which argues that a comprehensive understanding of the antecedents and effects of strategic changes requires taking into consideration how managers interpret the external and internal pressures and variations, as well as the direct effect of environmental and

organizational conditions and changes when they plan an agenda for change. Similarly, in their theoretical piece, Rajagopalan and Spreitzer (1997) called for studies that take into account cognitions (perceptions of the situation and of the necessity and ability to change), actions (intentions, initiatives) and objective measures of contextual forces or influences. However, research that directly assesses these three angles is still rather scarce. We contribute in this regard with our studies from Chapter 2 and Chapter 3 that shows how managerial actions and intentions are distinct from the interpretation of the situation, and that such actions are shaped by the interaction between the manager's cognition and contextual influences (measured by the objective performance compared to the industry).

Through Chapter 4, we contribute to the family firm literature in several research streams. Below we will mention some of them. Thus, we add to this body of work by denouncing the fragmentation that exist on the definition of family business, which difficult the replication of studies and the understanding of the implications of every particular type of research. More specifically, we show the two main streams that literature has followed: the involvement approach and the essence approach, and provide some propositions for its reconciliation. On top of that, we highlight that the concept of family firm is still open to debate and therefore, we suggest that forthcoming research should work in generating a more clear and integrative definition and measurement of family involvement which allows reconciling future investigations.

In addition, we anticipate and find that the own idiosyncrasy of family firms, strongly influenced by their socioemotional wealth (Gomez-Mejia et al., 2007), will make them not to vary their way of acting and continue investing, financing and operating thinking about the 'entity' as something more than a mere firm (Meyer & Zucker, 1989); even during periods of economic fluctuation (which could affect the future and viability of the firm) and in particular during the latest economic crisis occurred globally in recent years. Based on these findings, we corroborate the distinctiveness of these firms which will basically rule their behavior and actions based on the preservation of its socioemotional wealth (Berrone et al., 2012; Gomez-Mejia et al., 2011).

Last but not least, we also find support to determine that such uniqueness presented by family firms similarly govern their behavior over other type of characteristics different from the context. Thus, for example, we show that despite family firms' managers present a high or a low level of education (or average age), the financial strength shown by these organizations keeps stable. However, within non-family firms, we may observe that different levels of TMT characteristics do matter in affecting organizational outcomes (see Chapter 4).

5.4. PRACTICAL IMPLICATIONS

This dissertation has several practical implications for managers, TMT members and family firms. However, the main focus of them is related to handling with performance evaluations in order to more accurately understand organizational subsequent actions. An initial inference of our analysis is that the performance assessment process may become more complex than suggested by the problem-solving mode assumed by performance feedback theory. This research perspective argues that decision makers define standards of performance evaluation prospectively and, later on, assess actual performance by comparing it to their predefined standards – generally assumed as its historical results or performance of organizations' peers (Shinkle, 2012). Therefore, if performance is below the aspiration level, it is concluded that a performance gap (or 'attainment discrepancy') exists and therefore, the firm would initiate a change process (Cyert & March, 1963; Greve, 2003). However, our results show that the incorporation of insights from a cognitive approach generate a better understanding of managerial strategic decisions (Greve, 2003).

Hence, a key to managerial success can be to search for measures of its perceptions or satisfaction over firm's objective performance in order to discern and understand the inception of their change intentions. Consequently, the selection of procedures or tools through which managers can objectively measure or know their cognitive values is likely to lead to success practices. To allow these specific subjective evaluations to emerge, a firm could for instance set up regular meetings to discuss about the output of the firm, elaborate scenarios, define prior and future expectations, establish future goals, etc. Another option to make those perceptions to show up could

be to incorporate in those meetings external actors that objectively and impartially could ask managers about their feelings and insights. Therefore, firms should pay special attention to these supportive and oriented practices and might even follow specific trainings to learn or to improve these abilities.

Note that in our research we have described two different situations in which we expect a higher magnitude of intended strategic changes: (1) dissatisfied managers who face negative feedback of poor performance compared to the industry, and (2) highly satisfied managers whose companies are performing very well compared to the industry. Furthermore, we have also related each situation with a type of change. Thus, while the former situation corresponds to a *reactive*, '*problemistic search*'-driven argumentation, the latter is founded on a logic of *proactive* search behavior, prone to the idea of '*organizational slack*'. Thus, we propose that it will be rather relevant for managers to know the change streams proposed by the literature and once placing themselves in one or another position to understand the change processes followed by their firms. A drastic way to cope with this situation would be to ask them directly whether they are the mercy of external forces or if is what happens to them under their own control. This question relates to the concept of locus of control where two main positions are defined (Nowicki & Strickland, 1973): an external one, where it is believed that fate, luck or outside forces guide what happens; and an internal one, where it is believed that one' s own ability, effort, or actions determine what happens. With this, we suggest that managers could understand the benefits of knowing in which quadrant of the graph they are located and for instance, better grasp the behavior of some relevant actors for its own decision-making process (which previously was considered as strange or incomprehensible) or the behavior developed by their competitors. We will provide examples for both situations.

For the first one we will based on our findings, which show that dissatisfied CEOs that experience high levels of performance compared to the industry (e.g., when they are highly ambitious) will likely not pursue higher intentions to change. One of the reasons for this stagnation is argued to be the opposed position that organization's stakeholders may have against change due to such positive performance may impede CEOs to convince them for the urgency of the situation (Chowdhury & Lang, 1996; Garbuio et al., 2015). In this way, managers could understand, for example, the

underlying (and theoretical) reasons why that investor was so stubborn with its ideas. Similarly, for the second situation, managers could better comprehend why despite reaching similar results such market leader continues innovating and changing strategic aspects.

Practitioners should also be aware that emotions which emanate from family firms can limit the organization in its ability to adapt to certain business demands. It is important that family firms acknowledge that putting a large emphasis on emotions through for example the preservation of the socioemotional wealth can help the family firm to keep family in control, invest more efficiently, take less risk-averse options, rely less on debt, look for a higher continuity of the firm, etc. but can also negatively affect the decision-making process. Thus, they might for example be more reluctant to sell the firm or take some strategic actions that could benefit the firm in the long run (Gomez-Mejia et al., 2007). One illustrative example could be the opposition that could show the firm to be acquired or merged with a partner that potentially would help the firm to drastically improve its results and/or to professionalize. Hence, 'familiness' might be sometimes synonymous with a missed opportunity.

Consequently, family firms should try to reach a balance where both business and family needs are met. In this sense, several actions could be undertaken. First, family firms could professionalize their governance system by for instance including in its board of directors external actors. In addition, family governance practices such as a family forum can reach the same goal. These practices can create clear formulation of the role of the family and their attitude towards 'non-family oriented or rational actions'.

5.5. SUGGESTIONS FOR FUTURE RESEARCH

To finalize this dissertation, we want to point out some interesting pathways for future research with the ultimate objective of pushing the field towards more rigor and impact.

First, we intentionally chose to study CEOs' intention to change instead of realized change behavior at the organizational level as the former is closer to CEOs' decision-making processes (which we want to capture) as opposed to distal outcome-

related measures that assess actual, realized organizational change (Gavetti et al., 2012). Nevertheless, a fruitful research avenue would be to test whether this willingness to change at the CEO-level leads, afterwards, translates into actual changes in strategies, improvement of results, survival rates, etc. This presumes insights in the implementation process of strategic changes (Hailey & Balogun, 2002) and might require longitudinal data.

Additionally, another fruitful research line could be obtained by assessing the *type* of change achieved. As previously explained, the variable *organizational change behavior* includes both scope (*internationalization; market penetration/consolidation; and diversification*) and growth methods (*organic growth; strategic alliances; and mergers & acquisitions*). However, this variable is calculated by the sum of the absolute differences between the importance given to each of these six categories in the present and in the future/intended strategy. Thus, we argue that to improve our findings we could report *actual change* based on these six categories or a group of them. In this way, for instance, a firm could present a high level of change based on an increase of market penetration/consolidation and organic growth. However, another firm could present a similar level of change but in this case based on internationalization and strategic alliances. Therefore, despite its similar meaning in terms of absolute change values, the first case would be more related to exploitative or inner solutions. Meanwhile, the latter would be more associated with exploratory or expansive actions.

In the third place, as our research focuses on CEOs' satisfaction with firm's results, we do not take into account the antecedents that might guide these satisfaction levels. Future scholars might try to disentangle why some managers appear to be more easily satisfied than others, which in turn affects how these managers interpret performance feedback cues. On a related note, differences in satisfaction levels might also be attributed to industry- or organization-level effects.

Fourth, we assessed performance cues comparing firm's performance with the industry's average performance level. However, a more fine-grained approach might be warranted. Some researchers (e.g., Fiegenbaum et al., 1996; Labianca et al., 2009) advocate for comparing a focal organization's performance against that of an organization-specific reference group, which might not be congruent with the whole industry. We do not implement such an approach in the present study, partly because

of pragmatic reasons (related to the availability of information on specific organizations' reference groups), but also because we believe that in our sample of SMEs in a variety of mostly mature industries – typically characterized by strong industry recipes – the performance levels of individual organizations' specific reference groups will probably be close to the industry's average performance level anyway (Lehner, 2000).

Fifth, our results although relevant and significant for the family firm literature, must be viewed carefully because of our use of a univariate measure of family ownership, which may not faithfully represent the reality of family firm's involvement. This idea would allow literature to dig into the definition of family businesses and would help to clarify an issue that is still open to debate. Differences should be identified and explained through both theory and practice.

Similarly, another topic which opens up some interesting research opportunities would be to capture the drivers of the preservation of such family involvement or to examine differences between family firms' characteristics, based on the importance of the preservation of such variable. Thus, we argue that a more in-depth understanding of the concept would increase the explanatory value of family firm-oriented research.

Finally, our sample is intentionally formed by SMEs due to its suitability to test our hypotheses. Thus, although the size of these organizations allows them to present a formal organizational structure they are normally short of resources, support functions to make strategic decisions. Consequently, the abilities of their managers but also their attitudes, perceptions and cognitions turn up as even more important tools for the decision-making processes in this type of firms (Lubatkin et al., 2006). However, an interesting avenue for further research could be to explore our hypotheses under different types of organizations such as multinational companies, big size firms, etc.

CHAPTER 6:
Resumen y resultados de la tesis doctoral

Muchas de las decisiones tomadas por los equipos directivos de una organización tienen una alta probabilidad de fracaso (Nutt, 1999). Esta afirmación, que puede llegar a resultar un poco impactante es, de hecho, mucho más común de lo que uno pudiera imaginar (Bloom et al., 2012). Así, simplemente ojeando la prensa actual probablemente encontraremos varios casos de errores empresariales que han generado fatales consecuencias para el devenir de una compañía. Por supuesto, también encontraremos casos de éxito, directivos ejemplares y recetas de buenas prácticas (Eide et al., 2016; Schrage, 2013), aunque estos serán mucho menores. Sin embargo, tal y como afirman Bloom et al. (2012), el conjunto de empresas mal gestionadas será mucho mayor que el de las que están bien gestionadas.

En general, esta condición cuando menos preocupante hace hincapié en la importancia de estudiar a los equipos de alta dirección y, de esta manera, intentar desentrañar la compleja interacción existente entre sus características, los procesos de toma de decisiones y los factores contingentes que indudablemente influirán en el comportamiento adoptado por las organizaciones (Hambrick y Mason, 1984). La investigación sobre los equipos directivos comenzó a florecer tras la publicación del trabajo seminal de Hambrick y Mason (1984) donde se propuso la teoría de la *upper-echelons.* Esta teoría básicamente destacaba la importancia de analizar a los equipos directivos para poder explicar los resultados, las decisiones y el comportamiento adoptado por una empresa (Bantel y Jackson, 1989; Buyl et al., 2014 Hambrick y Mason, 1984). En otras palabras, para comprender por qué las organizaciones hacían las cosas que hacían o se comportaban de una manera u otra, Hambrick y Mason (1984) sugerían que había que estudiar las características, experiencias y valores cognitivos de estos actores (Hambrick y Mason, 1984). Esta suposición inspiró a muchos académicos a investigar empíricamente el impacto de tales características en una miríada de variables de resultado tales como volumen de negocios, innovación, diversificación y desempeño organizacional (Boone et al., 2005). Sin embargo, a pesar de generar un elevado número de contribuciones empíricas, la investigación existente en esta área se ha centrado esencialmente en el estudio de variables directamente observables (como pueden ser las demográficas o funcionales) y rara vez ha considerado explícitamente las actitudes y percepciones de los directivos – a pesar de que generalmente se asume

que estas últimas actúan como filtros o percepciones de la realidad y por tanto de la toma de decisiones (Cho y Hambrick, 2006; Hambrick, 1994; Lawrence, 1997).

De una forma análoga, la literatura sobre el *performance feedback* se fundamenta sobre unas bases similares a las que acabamos de mencionar. Así, fuertemente influenciada por la *Behavioral Theory of the Firm* (BTF, Cyert y March, 1963), esta perspectiva se centra en estudiar los efectos que tiene la percepción de los directivos sobre el rendimiento alcanzado por la organización en el comportamiento de esta última. Su proposición más ampliamente aceptada se basa en que las personas encargadas de tomar las decisiones en una empresa (es decir, sus directivos) únicamente decidirán apostar por un cambio estratégico cuando el desempeño de su organización esté por debajo de los niveles que aspiraban a alcanzar con anterioridad (Greve, 2003). Es decir, la idea que subyace es que dicha 'discrepancia al logro' generará una insatisfacción dentro del equipo directivo, el cual intentará subsanarla mediante un cambio en su estrategia implementada en la actualidad.

Sin embargo, la literatura también ha desarrollado perspectivas teóricas que contradicen a la anterior (Bowen et al., 2010) y que básicamente se centran en reconsiderar los niveles de aspiraciones que los directivos utilizan para determinar cuándo se produce el cambio estratégico y cuando no. Por ejemplo, Jordan y Audia (2012) determinan que, aunque los resultados de la empresa estén por debajo de sus niveles pretendidos, esta situación podría no conducir a un mayor cambio si los directivos optan por modificar sus evaluaciones y considerarlo como satisfactorio en una búsqueda de por ejemplo mejorar su imagen frente a sus empleados. Otro ejemplo similar lo propone Labianca et al. (2009) estableciendo que a veces, las empresas que tienen unos resultados por encima de sus aspiraciones siguen cambiando (en vez de no hacerlo como sugeriría la BTF) y esto es debido porque comparan sus resultados con los de las empresas con las que quieren competir en un futuro. Estos resultados equívocos ponen de relieve la necesidad de realizar una mayor investigación sobre el verdadero significado de la 'discrepancia al logro' y del impacto que esta tiene sobre el comportamiento de las organizaciones (Jordan y Audia, 2012). Exactamente, esto es lo que intentaremos resolver a través de la presente tesis doctoral.

Para ello, lo primero que haremos será destacar la forma (casi inamovible) en la que se ha medido la 'discrepancia al logro'. Así, esta variable se ha establecido

comúnmente como la diferencia entre los resultados obtenidos por una empresa por un lado y los resultados obtenidos por la propia empresa en años anteriores/o los resultados medios obtenidos por su sector (Shinkle, 2012). Por lo tanto, lo que implícitamente se está asumiendo en la literatura es que los niveles de aspiración (y por tanto la 'discrepancia al logro') se basan únicamente en resultados objetivos y directamente observables; y por extensión, que los directivos tomarán sus decisiones de cambio estratégico únicamente siguiendo parámetros objetivos. Sin embargo, tanto el mundo profesional como el académico (Fiegenbaum et al., 1996; Labianca et al., 2009) han clarificado que muchos otros factores pueden también afectar a las aspiraciones de los directivos y por tanto a sus percepciones sobre la 'discrepancia al logro'. Para abordar esta cuestión, en este trabajo proponemos utilizar indicadores alternativos a los previamente utilizados a la hora de medir la 'discrepancia al logro' de los directivos y que estos estén mucho más relacionados con sus percepciones y los sentimientos. En concreto, proponemos dos opciones, las cuales se representan respectivamente en el capítulo 2 y en el capítulo 3 de esta tesis doctoral.

De esta manera, el **capítulo 2** propone el uso de la *complacencia* con los resultados obtenidos por la empresa como medida más aproximada de 'discrepancia al logro'. En concreto, esta puede ser definida como un estado de conformismo o sentimiento de tranquilidad ficticio ya que supone el desconocimiento de algún peligro o amenaza potencial que puede hacer peligrar los resultados obtenidos por la organización (Pascal, 2011). Sin embargo, según Kawall (2006) la propia definición de complacencia podría llevar a cierta confusión al vincular sentimientos de satisfacción justificados como ejemplos de evaluaciones complacientes. Así, este autor matiza que la complacencia requerirá de una confusión sobre el nivel logrado por un individuo o institución, llevando a generar un nivel excesivo de satisfacción. En consecuencia, según esta línea de razonamiento, mediremos la complacencia de los directivos como la diferencia entre la medida tradicional y objetiva de la 'discrepancia al logro' efectuada previamente por la literatura y la satisfacción del CEO con dichos resultados. Es decir, para poder considerar que un directivo presenta evaluaciones complacientes sobre sus resultados éste tendría que mostrar altos niveles de satisfacción a pesar de que objetivamente sus resultados no mostraran lo mismo.

Como consecuencia, a lo largo de este trabajo argumentamos y hallamos que el cambio estratégico no estará directamente relacionado con los resultados objetivos obtenidos por una organización, sino que dependerá del nivel de complacencia mostrado por sus directivos (y el CEO como su máximo representante) con esa determinada situación (Gordon et al., 2000). Es decir, mientras que los directivos no estén descontentos con los resultados obtenidos por su empresa (lo cual significaría la consecución de evaluaciones poco complacientes), no presentarán una intención de cambio estratégico (Sánchez-Peinado et al., 2010).

Por lo tanto, nuestros resultados seguirán los preceptos establecidos por la BTF proponiendo una relación negativa entre complacencia y cambio estratégico. Sin embargo, al introducir variables cognitivas a la ecuación, conseguiremos dar respuesta a las teorías contradictorias que únicamente se basaban en valores objetivos a la hora de determinar sus conclusiones. Otra de las consecuencias de nuestra investigación es que gracias a sus resultados se podría entender mejor, por ejemplo, por qué algunas empresas presentan comportamientos de cambio estratégico y otras no a pesar de contar con los mismos resultados.

Para finalizar este capítulo y con el objetivo de ampliar nuestro conocimiento sobre la complacencia mostrada por los directivos de una organización, analizaremos el efecto que algunas variables demográficas del equipo directivo ejercen sobre ésta. Concretamente encontramos que la diversidad funcional del equipo directivo afectará negativamente al nivel de complacencia mostrado por los directivos en sus evaluaciones; mientras que su antigüedad media en el puesto tendrá un efecto positivo sobre esta variable.

Mientras tanto, el **capítulo 3** propone el uso de la *satisfacción* del CEO de una organización con los resultados obtenidos por ésta como una medida más directa sobre la 'discrepancia al logro' (Haleblian y Rajagopalan, 2005). Es decir, en este capítulo ya no se propone el uso de una combinación de ésta última con las medidas objetivas sobre los resultados obtenidos por la compañía. Así, además de abordar su posible relación con las medidas tradicionales objetivas sobre los resultados obtenidos por una organización, en esta sección se presenta un estudio más pormenorizado sobre el significado de la satisfacción y su impacto sobre el cambio estratégico. Más

específicamente, se argumenta que dicha variable podría ser vista como una 'variable a posteriori' a través de la cual se añadiría información perceptual (como por ejemplo las expectativas individuales, experiencias previas, presiones externas, características demográficas, etc.) a la evaluación objetiva generada por los directivos sobre los resultados obtenidos por su organización (Matho y Khanin, 2015).

Nuestros resultados confirman nuestra propuesta mostrando a la satisfacción como una variable con un poder explicativo superior al presentado por la medida tradicional y objetiva de la 'discrepancia al logro'. En consecuencia, siguiendo la lógica propuesta por la BTF esperamos que cuanto menor sea la satisfacción del CEO con los resultados obtenidos por su organización (es decir, cuanto mayor sea su 'discrepancia al logro'), mayor cambio estratégico será generado.

Además, el utilizar únicamente la variable *satisfacción* para articular la 'discrepancia al logro' nos permite introducir indicadores objetivos – y más específicamente los *resultados obtenidos por una empresa en comparación con la media de su sector* – como moderadores de esta relación. En particular, esta interacción es propuesta debido a que aunque la investigación relacionada con la BTF propone una relación universalmente negativa entre la insatisfacción generada por la 'discrepancia al logro' y el cambio estratégico; otras teorías han sugerido relaciones distintas. Así, por ejemplo, según algunos autores una alta satisfacción con los resultados obtenidos por la organización (como consecuencia de una 'discrepancia al logro' baja o negativa) podría instigar sentimientos de confianza y de eficacia en uno mismo por el resultado alcanzado y, consecuentemente, comportamientos proactivos tales como los cambios estratégicos (Haleblian y Rajagopalan, 2005; Mahto y Khanin, 2015). Por el contrario, una alta insatisfacción con los resultados obtenidos podría causar un comportamiento conservador por un razonamiento similar al anterior (Chatterjee y Hambrick, 2011; Staw et al., 1981). En un esfuerzo por conciliar estas perspectivas aparentemente contradictorias, proponemos que los *resultados obtenidos por una empresa en comparación con la media de su sector* podrían actuar como un indicador de la posición de la empresa en el sector (Kacperczyk et al., 2015) y de esta forma servir como señal de adecuación de la estrategia actual (Baum et al., 2005), así como de las capacidades de los directivos para la obtención de estos resultados (Chatterjee y Hambrick, 2011). En consecuencia, esperamos que esta 'señal' de la contextualización de la empresa dentro de su sector

interactúe con la satisfacción presentada por los CEOs y que, con ello, el efecto negativo entre esta última y el cambio estratégico sea menos pronunciado cuanto mayor sea el resultado obtenido de una empresa en comparación con su sector. Como resultado de esta interacción podremos observar una mejora relevante de las opciones consideradas hasta el momento.

Recapitulando, tanto el capítulo 2 como la primera parte de este capítulo 3 establecen (únicamente) una relación negativa entre, respectivamente, la complacencia (representada como la diferencia entre la satisfacción obtenida con los resultados de la organización y los propios resultados objetivos) y la satisfacción, y el cambio estratégico. Es decir, ambos dos anticipan (y hallan) que cuanto mayor sea la 'discrepancia al logro' (y por tanto el descontento con los resultados), mayor será el cambio generado.

Sin embargo, al introducir los *resultados obtenidos por una empresa en comparación con la media de su sector* como variable moderadora, encontramos que la insatisfacción no siempre conducirá a un mayor cambio estratégico. Así, por ejemplo, cuando los resultados objetivos obtenidos por la organización (respecto a la media del sector) señalan que las estrategias actuales están dando sus frutos, esto podría generar un menor cambio estratégico puesto que lo 'racional' sería continuar con la estrategia actual. Del mismo modo, la satisfacción puede no siempre estar relacionada con un menor cambio estratégico. En este sentido, nuestros resultados muestran que, ante niveles extremadamente altos de rendimiento en comparación con su sector, los directivos podrían ver incrementada la confianza y eficacia en su forma de trabajar y, consecuentemente, impulsar comportamientos proactivos que se reflejarían en un mayor cambio estratégico.

De esta forma, los resultados obtenidos en este capítulo refuerzan las del capítulo anterior determinando que, para analizar el comportamiento de las organizaciones, tendremos que tener en cuenta no solo variables objetivas sino también aspectos cognitivos, los cuales nos ayudarán (1) a predecir las interpretaciones efectuadas por los directivos ante su nivel de rendimiento y (2) a unir las diferentes perspectivas teóricas (basadas únicamente en valores objetivos) presentes en la literatura.

Una vez analizado el modo en el que las organizaciones toman sus decisiones de cambio estratégico, el objetivo del **capítulo 4** es alejarse un poco del prisma de los procesos y centrar su atención en el efecto que las características generales de una empresa pueden tener a la hora de generar unos resultados u otros dentro de las mismas. Más concretamente, lo que pretendemos conseguir con el desarrollo de esta investigación es poder dar respuesta a las siguientes preguntas: ¿Por qué algunas organizaciones obtienen resultados favorables durante los períodos de crisis mientras que otras atraviesan dificultades o simplemente desaparecen? ¿Afectará a esta situación el hecho de que una empresa sea familiar? Para ello, antes de todo, en este capítulo definiremos el periodo de crisis utilizado para comprobar nuestras hipótesis. Así, específicamente nos centraremos en la última crisis financiera y económica ocurrida a nivel global, la cual alcanzó su pico más virulento durante los años 2008 y 2009, y con la que se han obtenido efectos devastadores sobre la economía tanto española como mundial.

A lo largo de la literatura, diversos estudios han destacado las diferencias entre las empresas familiares y no familiares en función de sus objetivos, ética, tamaño, estructura financiera, estrategias, gobierno corporativo, etc. (Basco y Pérez-Rodriguez, 2009; Berrone et al., 2010; Distelberg y Sorenson, 2009; Gomez-Mejia et al., 2011). En este sentido, los académicos concluyen que todas estas diferencias revertirán finalmente en distintos niveles de rendimiento, opciones de financiamiento e inversión, y toma de riesgos llevados a cabo por unas empresas u otras. En particular, estos resultados se atribuyen principalmente a un componente emocional presente en las empresas familiares: la riqueza socioemocional, la cual es destacada como la característica más importante para diferenciar a una empresa familiar de una no familiar (Berrone et al., 2010) y definida como "aquellos aspectos no financieros de la empresa que satisfacen las necesidades afectivas de la familia, como la identidad, la capacidad de ejercer influencia familiar y la perpetuación de la dinastía familiar" (Gomez-Mejia et al., 2007, p. 106).

Basándonos en estos argumentos, en el presente estudio encontramos que la propiedad familiar afecta positivamente a la fortaleza financiera obtenida por una organización. Es decir, nuestros resultados apoyan lo que previamente destacábamos sobre estas empresas, las cuales priorizarán la preservación de su riqueza

socioemocional y por tanto la continuidad del negocio familiar (Berrone et al., 2012; Gomez-Mejia et al., 2007). Consecuentemente, podemos afirmar que, durante periodos no benevolentes, los preceptos (financieros) que guían a estas organizaciones se verán mantenidos.

Además, siguiendo la investigación de Hofer y Schendel (1978) y Sharma et al. (1997), argumentamos que añadiendo conceptos relacionados con la dirección de empresas sobre el enfoque de la empresa familiar obtendremos unos resultados más óptimos y clarificadores. En este sentido, se propone que el ámbito de actuación de una organización (medido por su grado de internacionalización y diversificación) y las características de sus actores clave (medidos por el nivel educativo y la edad media de sus directivos) afectarán a la relación previamente propuesta entre propiedad familiar y fortaleza financiera. Sin embargo, nuestros resultados muestran que ni la internacionalización ni la diversificación que presenta una organización moderan esta relación. Es decir, esto indicaría que el contexto en el que una empresa familiar está inmersa no afecta a las perspectivas de supervivencia de ésta (y por lo tanto a su solidez financiera).

Por el contrario, encontramos que la edad media del equipo directivo sí modera positivamente nuestra hipótesis básica. Por lo tanto, parece que está característica afectará a las estructuras de capital (Chen et al., 2010), el riesgo tomado (Barker y Mueller, 2002; Hambrick y Mason, 1984), el comportamiento de inversión (Wiersema y Bantel, 1992) y la capacidad para lidiar con información (Taylor, 1975); generando, por lo tanto, menores niveles de apalancamiento financiero entre los directivos más 'mayores' y, como consecuencia, provocando un efecto positivo sobre la fortaleza financiera obtenida por su organización.

En esta investigación también encontramos que los directivos con un nivel educativo más alto (lo cual está relacionado en la literatura con una mayor confianza en sus inversiones, mayor apertura al cambio, mejor trato con la ambigüedad y complejidad, mayor facilidad para proporcionar soluciones, etc. – Bantel y Jackson, 1989; Barker y Mueller, 2002; Day y Lord, 1992; Herrmann y Datta, 2005) generarán niveles más bajos de fortaleza financiera que los directivos con un nivel educativo menor; por lo tanto, presentando una moderación negativa en la relación entre la propiedad familiar y la fortaleza financiera obtenida por una empresa. Así, parece que

los equipos directivos más altamente educados se apalancarán más y, por tanto, provocarán menores niveles de fortaleza financiera en sus organizaciones.

Asimismo, analizando estos resultados con más detenimiento, encontramos que las diferencias entre los directivos con bajo nivel educativo son inexistentes tanto si pertenecen a una empresa familiar como si no. Esto sugeriría que a pesar de pertenecer a un tipo de empresa u otra, estos directivos presentarán un nivel de apalancamiento bajo (y en particular, como hemos mencionado anteriormente, más bajo que el de los directivos con altos niveles educativos) y por tanto esto haría que no existieran diferencias significativas entre este grupo. Sin embargo, cuando los equipos directivos mantienen de media niveles educativos elevados, la fortaleza financiera obtenida por las empresas familiares será mayor que la obtenida por empresas no familiares, es decir, sí que existirán diferencias significativas entre este grupo. Particularmente, argumentamos que tales diferencias podrían explicarse por las características inherentes de las empresas familiares, tales como las de invertir más eficientemente, tomar menos alternativas de riesgo, depender menos de la deuda, buscar una mayor continuidad de la empresa, etc., lo cual reduciría el efecto negativo de esta característica (es decir, del alto nivel educativo presentado por los directivos) sobre la fortaleza financiera alcanzada por una organización.

Relacionado con este último punto, un hallazgo interesante a destacar dentro de los resultados presentados por este capítulo es que las características del equipo directivo (en nuestro estudio la edad media y el nivel educativo medio) parecen tener únicamente un efecto marginal dentro de las empresas familiares. Es decir, a pesar de la presencia de valores altos o bajos de estas características directivas, la fortaleza financiera mostrada por estas organizaciones se mantiene estable (y elevada). Sin embargo, dentro de las empresas no familiares, observamos que las características del equipo directivo sí que importan, afectando de manera divergente a la fortaleza financiera obtenida por una organización (p.e., cuando presentan equipos directivos con niveles educativos más elevados, su fortaleza financiera será menor; mientras que cuando éstos presentan menores niveles su fortaleza financiera presenta valores mucho más superiores).

Así, como consecuencia de nuestra investigación podemos determinar que las perspectivas y características idiosincráticas de las empresas familiares parecen

gobernar el comportamiento de estas organizaciones, prevaleciendo de esta forma ante diferentes características de su equipo directivo, ámbito de actuación o contexto económico.

CHAPTER 7:
Appendices

7.1. QUESTIONNAIRE

VNIVERSITAT DE VALÈNCIA

Facultat d'Economia

Departament de Direcció d'Empreses "Juan José Renau Piqueras"

LAS SIGUIENTES PREGUNTAS SE REFIEREN TODAS A SU ACTIVIDAD PRINCIPAL

[1] De las CUATRO descripciones que le presentamos a continuación, indique cuál de ellas se ajusta mejor al modo de actuar de su empresa en su negocio principal, en comparación con otras empresas del sector (marque sólo una cruz):

Mi empresa trata de mantener y cubrir un nicho de mercado estable, ofreciendo una gama de productos más limitada que los competidores pero con mejor calidad y servicio, o con mejores precios. Mi empresa no suele ser pionera en el desarrollo de la industria y suele ignorar los cambios que no afectan directamente a sus áreas de operaciones, concentrándose en hacerlo lo mejor posible en un área limitada.	
Mi empresa trata de atender un mercado amplio ofreciendo una gran variedad de productos. Además, mi empresa suele ser la "primera" en introducir nuevos productos en el sector o en abordar nuevos mercados. Mi empresa responde rápidamente a aquellas señales del mercado que puedan plantear nuevas oportunidades.	
Mi empresa trata de mantener una gama limitada y estable de productos pero, al mismo tiempo, se mueve rápidamente para seguir los que, tras una cuidadosa selección, parecen los desarrollos más prometedores en la industria. Mi empresa rara vez es pionera en nuevos productos. Sin embargo, vigilando cuidadosamente las acciones de los principales competidores, suele ser la "segunda" en introducir un producto similar pero menos costoso.	
Mi empresa no suele ser tan agresiva en el mantenimiento de productos y mercados como los principales rivales ni tampoco está dispuesta asumir tantos riesgos como sus competidores. La mayor parte de las veces, mi empresa responde con acciones cuando alguna de sus áreas o negocios se ve amenazada por presiones del entorno.	

[2] Valore los siguientes aspectos sobre las prácticas o experiencias empresariales de su organización:

UTILICE LA SIGUIENTE ESCALA: (1) Muy bajo; (2) Bajo; (3) Medio; (4) Alto; (5) Muy Alto

Tabla 2. Prácticas y experiencias empresariales	***Valoración***
Grado de éxito de los cambios organizativos y/o estratégicos llevados a cabo en mi empresa en el pasado	
Grado de conveniencia de las estrategias actuales de la empresa para enfrentarse a las condiciones del entorno	
Inversión asumida en maquinaria, instalaciones, etc. para apoyar las estrategias adoptadas actualmente	
Importancia de los costes de cambio que se producirían en mi empresa si adoptáramos nuevas estrategias	
Grado de incertidumbre percibida ante cambios en las estrategias actuales de mi empresa	
Grado de conocimiento de otras opciones estratégicas distintas a las que lleva a cabo mi empresa actualmente	

[3] Indique su grado de satisfacción con los resultados obtenidos en su negocio principal en el ejercicio 2005:

ESCALA: (1) Muy insatisfecho; (2) Insatisfecho; (3) Ni satisfecho ni insatisfecho; (4) Satisfecho; (5) Muy satisfecho

Rentabilidad de la empresa		Incremento de las ventas		Marcha general de la empresa	

[4] Caracterice el comportamiento de su empresa para competir en su negocio o actividad principal

A continuación se muestran comportamientos que las empresas suelen llevar a cabo para competir en un negocio determinado.

*En la primera columna, marque con **SIGNO +** las **dos opciones que son más importantes** para su empresa en el momento actual y con **SIGNO –** las **dos opciones que son menos importantes** para su empresa en el momento actual.*

*En la segunda columna, siga el mismo procedimiento pero considerando la importancia que tendrán las opciones en los próximos 3 años. Marque con **SIGNO +** las **dos opciones que serán más importantes** y con **SIGNO –** las **dos opciones que serán menos importantes** en los próximos tres años.*

TABLA 4. Estrategias competitivas	**Momento actual** Marque las dos más importantes (+) y las dos menos imp. (-)	**Próximos 3 años** Marque las dos más importantes (+) y las dos menos imp. (-)
[a] invertir en la mejora de procesos productivos para abaratar costes		
[b] mejorar costes mediante subcontratación o deslocalización		
[c] mejorar costes mediante el tamaño o las economías de escala		
[d] mejorar la calidad de los productos o de la prestación de los servicios		
[e] invertir en marketing (publicidad, distribución...) de productos o servicios		
[f] innovar en productos o servicios superiores a los ofrecidos por la competencia		

Con respecto a las opciones que ha marcado en la Tabla 4	**Momento actual**	**Próximos 3 años**
De las opciones que ha marcado con signo + , indique la **MÁS importante de todas** para su empresa señalando la letra correspondiente (a, b, c, d, e, f) a dicha opción		
De las opciones que ha marcado con signo –, indique la **MENOS importante de todas** para su empresa señalando la letra correspondiente (a, b, c, d, e, f) a dicha opción		

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[5] Caracterice el comportamiento de su empresa para el crecimiento y/o desarrollo de su actividad

*Siguiendo el mismo procedimiento, señale con **signo positivo [+]** las __dos opciones__ de desarrollo que considere **que son más importantes** para su empresa, y señale **con signo negativo [–]** las __dos opciones__ que considere **menos importantes**. Este análisis debe realizarse para el momento actual y para los próximos 3 años.*

TABLA 5. Vías y modalidades de crecimiento y desarrollo empresarial	Momento actual Marque las dos más importantes (+) y las dos menos imp. (-)	Próximos 3 años Marque las dos más importantes (+) y las dos menos imp. (-)
[a] buscar nuevos mercados internacionales para comercializar sus productos		
[b] incrementar o defender su cuota de mercado en los mercados actuales		
[c] invertir recursos propios para incrementar o mejorar la capacidad productiva de la empresa (nuevas instalaciones productivas, canales distribución, etc.)		
[d] entrar en nuevos negocios o sectores de actividad		
[e] establecer acuerdos de cooperación con otras empresas		
[f] llevar a cabo algún proceso de fusión o adquisición con otras empresas		

Con respecto a las opciones que ha marcado en la Tabla 5	Momento actual	Próximos 3 años
De las opciones que ha marcado con signo + , indique la **MÁS importante de todas** para su empresa señalando la letra correspondiente (a, b, c, d, e, f) a dicha opción		
De las opciones que ha marcado con signo –, indique la **MENOS importante de todas** para su empresa señalando la letra correspondiente (a, b, c, d, e, f) a dicha opción		

[6] Indique en qué medida los siguientes factores del entorno suponen una amenaza (factor que puede suponer un riesgo) o una oportunidad (factor que puede afectar positivamente) para su empresa:

UTILICE LA SIGUIENTE ESCALA: (1) Amenaza muy importante; (2) Amenaza leve o moderada; (3) No afectan a mi empresa; (4) Oportunidad leve o moderada; (5) Oportunidad muy importante

Tabla 6. Percepción sobre oportunidades y amenazas del entorno	*Valoración*
Regulaciones o normas legales a las que se ven sometidas las empresas del sector	
Globalización de los mercados y, por tanto, internacionalización de la competencia en el sector	
Cambios en los gustos, necesidades o hábitos de los clientes	
Cambios tecnológicos en el sector	
Protección del sector frente a la entrada de nuevos competidores	
Rivalidad existente actualmente entre las empresas de su sector	
Existencia de productos sustitutivos que cumplen las mismas funciones que los ofrecidos en su sector	
Capacidad de los proveedores del sector para imponer condiciones (precios, plazos de entrega...)	
Capacidad de los clientes del sector para imponer condiciones (precios, plazos de entrega...)	

[7] Características del equipo directivo de la empresa (No referimos a la dirección general y siguiente nivel directivo):

Incluyéndole a Ud. mismo, ¿Cuántas personas ocupan puestos directivos de responsabilidad en la empresa?: _____

Indique cuántos de estos directivos:

Son mujeres *(ponga el número)*		Han trabajado en el extranjero (número)		Tienen participación en la propiedad de la empresa (núm.)	
Se han incorporado al equipo directivo actual en los últimos dos años (número)		Han tenido experiencia en puestos similares en otras empresas del sector (número)		Han tenido experiencia previa en puestos similares en otros sectores (número)	

¿Cuántos tienen o han tenido responsabilidad en las siguientes áreas?
(un directivo puede tener experiencia en más de un área) ***(ponga el número)***

Producción / Operaciones		Finanzas / Contabilidad		Recursos Humanos	
Marketing / Comercial		Investigación y Desarrollo		Operaciones internacionales	

¿Cuántos de estos directivos(as) tienen estudios universitarios en las siguientes especialidades

Economía / Empresa		Ciencias / Ingenierías		Otros	

Con respecto a la experiencia que poseen estos directivos indique aproximadamente lo siguiente:

Antigüedad media en la empresa (años)		Antigüedad media como miembro del equipo (años)		Experiencia media en el mismo sector (años)		Edad (media)	

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DATOS DE CLASIFICACIÓN DE LA EMPRESA

(Por favor, cumplimente esta información para clasificar su empresa y sector):

P1. Actividad principal de la empresa: ____

P2. Además de su actividad principal,
¿Desarrolla la empresa otros negocios adicionales? ☐ No → (pase a la P.5)
☐ Sí,

P3. ¿En cuántos negocios opera además del principal? __________________ (aprox.)

P4. ¿Qué porcentaje supone su actividad principal
sobre el total de la facturación de la empresa? ____________________ (aprox.)

P5. ¿Desde qué año comenzó su empresa a operar en su actividad principal? ____________ (aprox.)

P6. En su actividad principal,
¿Realiza ventas en el extranjero con regularidad? ☐ No → (pase a la P.9)
☐ Sí,

P7. ¿En cuántos países está presente?______________________________ (aprox.)

P8. ¿Qué porcentaje suponen las ventas internacionales
sobre el total de la facturación de la empresa? ____________________ (aprox.)

P.9 ¿Se trata de una empresa familiar? ☐ No
☐ Sí

Sus respuestas serán utilizadas exclusivamente con fines estadísticos y sus datos no serán cedidos a otras personas o entidades en ningún caso. No obstante, si desea que le remitamos un informe final con las principales conclusiones del estudio le rogamos que nos facilite sus datos de contacto

Datos de contacto:

Nombre de la persona de contacto: ____

Empresa: ____

Teléfono: ________________ E-mail: ____

Dirección: ____

____

MUCHAS GRACIAS POR DEDICAR SU TIEMPO A CONTESTAR ESTE CUESTIONARIO. Su ayuda al proporcionarnos esta información es de gran valor para el desarrollo de esta investigación.

POR FAVOR, DEVUELVA ESTE CUESTIONARIO CUMPLIMENTADO ENVIÁNDOLO POR CORREO O FAX (963 828 333) A LA ATENCIÓN DEL PROF. ALEJANDRO ESCRIBÁ. (Véase la dirección más abajo)

Si necesita algún tipo de aclaración o ayuda, o si desea más información sobre las actividades de nuestro equipo de investigación puede ponerse en contacto con:

Alejandro Escribá Esteve
Dpto. de Dirección de Empresas. Facultad de Economía.
Av. dels Tarongers, s/n. 46022 Valencia
Tel. 963 828 880 Fax. 963 828 333
E-mail: alejandro.escriba@uv.es

7.2. INTRODUCTION LETTER OF THE QUESTIONNAIRE

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COMPORTAMIENTO ESTRATÉGICO DE LAS EMPRESAS

Vd. estará ya habituado a escuchar que es necesario que las empresas adecuen sus estrategias y comportamientos a los retos actuales del entorno. Pero, ¿qué facilita y qué dificulta que las empresas se adapten a las nuevas condiciones? ¿Qué aspectos contribuyen a mejorar la capacidad de maniobra de las empresas?

Por favor, le rogamos que imprima este cuestionario y lo cumplimente siguiendo sus instrucciones. Una vez completado puede devolvérnoslo por correo o por fax (963 828 333) a la atención del prof. Alejandro Escribá.

Este es un importante estudio desarrollado por un equipo de investigación del Departamento de Dirección de Empresas de la Universidad de Valencia. Si desea más información sobre el estudio o requiere ayuda para cumplimentar el cuestionario, puede ponerse en contacto con el profesor Alejandro Escribá. Teléfono 963 828 880. E-mail: alejandro.escriba@uv.es

De acuerdo con las leyes sobre secreto estadístico y protección de datos personales, le GARANTIZAMOS TOTALMENTE LA CONFIDENCIALIDAD de la información que nos facilite, la cual será utilizada exclusivamente para su tratamiento estadístico.

7.3. PRE-NOTICE LETTER OF THE QUESTIONNAIRE

VNIVERSITAT DE VALÈNCIA

Facultat d'Economia

Departament de Direcció d'Empreses "Juan José Renau Piqueras"

A/A Dirección General
NOMBRE EMPRESA

Valencia, X de XXX de 200X

Asunto: Presentación del proyecto de investigación núm. XXX "Barreras y facilitadores de la adaptación de los comportamientos estratégicos de las empresas"

Estimado/a señor/a: En los próximos días Vd. recibirá por correo una solicitud de colaboración en un importante proyecto de investigación que está siendo desarrollado por la Universidad de Valencia.

Probablemente, Vd. esté ya habituado a escuchar las recomendaciones de expertos, académicos, políticos y/o consultores, en torno a la necesidad de que las empresas adecuen sus estrategias y comportamientos a los retos actuales del entorno. Sin embargo, los estudios existentes sobre las estrategias seguidas por las empresas no revelan patrones de cambio o adaptación claros sino, más bien, una notable inercia y continuidad en los comportamientos empresariales.

¿Qué facilita y qué dificulta que las empresas se adapten a las nuevas condiciones? ¿Qué aspectos contribuyen a mejorar la capacidad de maniobra de las mismas? Nuestra investigación pretende dar respuesta a estas preguntas, con el objeto de identificar aquellos aspectos que pueden limitar o favorecer la capacidad adaptación de las empresas ante los nuevos desafíos del entorno y, por consiguiente, influir en su competitividad.

Le anuncio esta solicitud anticipadamente porque somos conscientes de sus limitaciones de tiempo y porque hemos observado que muchos directivos prefieren saber con antelación que se les va a solicitar colaboración.

Le adelantamos también nuestro agradecimiento por su tiempo y por su consideración al contestar el breve cuestionario que le remitiremos. El éxito de esta investigación sólo será posible con el generoso apoyo de personas como Vd., quienes día a día toman decisiones sobre el rumbo y las actuaciones de sus empresas.

Atentamente,

Dr. Alejandro Escribá Esteve
Profesor Titular de Universidad
Departamento de Dirección de Empresas

P.D. En agradecimiento a su colaboración le proporcionaremos, junto con el cuestionario, las claves de acceso a una página web en la que encontrará informes realizados por nuestro equipo en estudios previos. Asimismo, si lo desea, le remitiremos por e-mail o por correo las conclusiones de la presente investigación en cuanto obtengamos los resultados de la misma.

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7.4. CONTROLS FOR COMMON METHOD VARIANCE

With the aim of checking for the validity of our subjective data we compared it, to the extent possible, with the objective information obtained through the SABI Informa database[24]. With this, we attempted to minimize potential common method variance problems associated with the collection of information from single informants. Nevertheless, due to the substantial complexity of this issue in behavioral research (Podsakoff et al., 2003) we also addressed it using different procedures and analyses. We list them below.

Firstly, in the design stage we used different sources to measure some of the key variables used in this dissertation. Hence, while for instance the *magnitude of intended strategic changes* (or *organizational change behavior)* was obtained by questionnaire responses of the CEOs of the organizations, the *performance compared to the industry*, *size of the organization* or *industry innovation intensity,* among others, were collected from secondary sources. In the second place, for the gathering of the survey data, we followed the recommendations established by Chang et al. (2010) and Podsakoff et al. (2003). Thus, we assured respondents confidentiality of the study, we apprised that there were no right or wrong answers and we asked them to answer as honestly as possible. Moreover, we structured questions related to the dependent variables (i.e., to organizational change and firm performance) in such a way that it was difficult for the respondent to find any pattern or theoretical link with the independent variables or any way to edit their answers to be more socially desirable, acquiescent or consistent. Likewise, we used different types of questions and scales, and we avoided using ambiguous, vague or unfamiliar terms.

However, as Podsakoff et al. (2003) state, the use of all these procedural remedies in the design stage may not completely eliminate the effects of common method variance. Therefore, we explicitly ran several ex-post statistical tests to control for the potential problems present in each of our investigations (for a review, see Podsakoff et al., 2003). An exploratory factor analysis (or Harman's one factor test) provided evidence that the majority of variance of our models did not account for one general factor (full analyses can be requested from the authors). To better understand

[24] SABI Informa database (Bureau Van Dijk) is the most important source of business, accounting and financial information in Spain.

this test we will provide an example from Chapter 3. Thus, in this study three different factors accounted for 19%, 15% and 13% of the variance respectively, suggesting that common method variance was not a problem in this research. In addition and taking into consideration the increasing criticisms towards this technique (Chang et al., 2010), we complemented this analysis with a partial correlation procedure (Lindell & Whitney, 2001). To do so, we adjusted the correlations between the independent variable and the dependent variable of each of our investigations, controlling for the potential bias of the respondent by compensating this effect with a marker variable (which according to these authors consists of a variable that is not theoretically linked to the relationship being studied and which has a low or inexistent correlation with the constructs). Next, we computed the corresponding statistics. The relationships of our models (from Chapter 3, Chapter 4 and Chapter 5) remained significant and with its corresponding signs, which allowed us to conclude that our results were not significantly influenced by the contaminating effect of common method bias (full analyses are available from the authors upon request).

CHAPTER 8:
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