GENERALIST CEOS’ EFFECTS ON STRATEGIC AND SOCIAL NOVELTY IN THE RESTAURANT INDUSTRY

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by

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ABSTRACT

Strategic novelty is defined as firms’ novel and innovative strategic actions such as investment in R&D, frequent strategic changes over time, and disconformity in various corporate decisions from the industry norm. Social novelty refers to the degree of heterogeneity and dynamism among the top management team (TMT). There is a high degree of importance in understanding the inherent nature of strategic novelty and social novelty, especially in the restaurant industry, where developing and undertaking creative and novel strategic initiatives are required to deliver high-quality services and products in order to effectively handle a variety of operational challenges faced by complex legislative and regulatory policies. However, there has been a lack of understanding on the antecedents and consequences of strategic novelty and social novelty in the restaurant literature. Thus, this dissertation conducts two studies: (1) the antecedents of strategic novelty and social novelty based on the upper echelons theory and human capital theory and (2) the performance outcomes of strategic novelty.

This study employed a generalized estimating equation (GEE) to test the proposed hypotheses. First, the analyses for Study 1 found that generalist CEOs are positively associated with restaurant firms’ strategic novelty and social novelty. The present study also found that the positive association between generalist CEOs and strategic novelty is mediated by social novelty. Thus, it can be concluded that restaurant firms led by generalist CEOs are more likely to engage in strategic and social novelty and the effect of generalist CEOs on strategic novelty is partially realized through social novelty. Second, the results of the analyses for Study 2 indicated that restaurant firms’ strategic novelty is positively associated with performance extremeness and performance volatility. That is,
restaurant firms undertaking strategic novelty tend to yield an extremely polarized and volatile financial performance.

The investigation into the antecedents of social novelty and strategic novelty and performance outcomes of strategic novelty contributes to both the upper echelons theory and restaurant literature in various ways. The findings of this study support the fundamental idea of the upper echelon theory, in that CEOs’ characteristics can largely influence strategic outcomes and TMT composition. This dissertation also enriches the restaurant literature by incorporating the idiosyncratic characteristics of the restaurant business in defining strategic novelty. Given the importance of developing diversity in the restaurant industry, this study raises an important research question related to how social novelty is developed. By examining the mediating effect of social novelty in the relationship between generalist CEOs and strategic novelty, the results of this study provide an important perspective on how corporate strategic decisions are made. Lastly, the previous literature on the effect of strategic novelty on a firm’s financial performance has been unclear. Hence, the present study incorporates the important aspect of the risky nature of strategic novelty in understanding firm performance.

Several managerial implications can be drawn from this dissertation. First, restaurant firms’ strategic actions are largely affected by CEOs’ characteristics and TMT composition. Thus, the characteristics of CEOs and the heterogeneity and dynamics of the TMT should be considered in understanding organizational outcomes. In addition, a CEO’s power relative to his or her board members plays an important role in the CEO’s influence in organizational outcomes. Hence, the board of directors needs to pay close attention to the degree to which CEOs possess power, so effective monitoring can mitigate
the agency problem. Moreover, restaurant managers need to carefully engage in strategic novelty, depending on their current performance conditions, because it significantly affects performance extremeness and volatility.
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CHAPTER 1

INTRODUCTION

1.1. Introduction

Restaurant industry sales are increasing and are projected to reach $863 billion in 2019, representing more than 4% of the U.S. gross domestic product (GDP) (NRA, 2019). Nonetheless, restaurant operators are challenged by rising labor costs and a complex legislative and regulatory landscape at the local, state, and federal levels that puts significant pressure on businesses’ bottom lines. As consumers remain cautious with their spending and are expecting more menu options, restaurant firms are required to engage innovative strategies to deliver exceptional products and services (NRA, 2019). Moreover, the restaurant industry is characterized as having a relatively high level of risk and severe competition among restaurant firms (Jogaratnam, 2017; Ottenbacher & Harrington, 2009). Under a business environment marked by high uncertainty and complexity, top managers need to develop and undertake creative and innovative strategies to effectively deal with potential major challenges (D’Aveni, 1994; Levine, 1987; Thompson, 1967).

A firm’s engagement in innovation is critical to its growth and survival because innovation has a significant impact on its ability to capture market share, differentiate itself from competitors, and achieve and maintain competitive advantages for business operations (Hudson, 1994). Although initiating innovative action is often accompanied by enormous costs that can be a burden to restaurant firms, pursuing innovative strategies to cope with competitive and dynamic environments and meet the needs of demanding and fastidious customers’ is desirable for restaurant firms (Pizam & Ellis, 1999). In order to
achieve innovative initiatives, it is critical for restaurant firms to create an appropriate organization structure. Since the restaurant industry is characterized by a relatively high degree of managerial discretion in which the latitude of top executives is imperative to strategic decision-making (Finkelstein et al., 2009), restaurant firms need to establish a top management team (TMT) structure and composition well suited to the development of innovative and creative strategies.

Many theories attempt to explain heterogeneity in strategic actions and organizational outcomes among firms. According to neo-classical economics (Teece & Winter, 1984; Rumelt, Schendel, & Teece, 1991), firms act within the boundaries of contextual conditions, such as markets, competition, and technologies. As such, managers play little or no role in shaping organizational outcomes and fate. Similarly, new institutional theorists (DiMaggio & Powell, 1983) and population ecologists (Hannan & Freeman, 1977) posit that managers are largely constrained by isomorphic pressures and inertial forces, thereby leaving them with marginal influence over organizational outcomes. In contrast, agency theorists (Eisenhardt, 1989; Jensen & Meckling, 1976) argue that since managers tend to inject their personal interests or preferences into corporate decisions and policies, shareholders should use appropriate monitoring systems and compensation schemes in order to effectively monitor their behaviors. Thus, any heterogeneity in a firm’s practices or performance can be explained by different corporate governance systems. On the other hand, upper echelons theory (Hambrick & Mason, 1984; Hambrick, 2007) sets forth that top executives in organizations have substantial influence over corporate strategies and policies. They view their current situations and seek alternatives through their own highly personalized lenses formed by their
experiences, personalities, and personal values. As such, their individualized perceptions and apprehensions shape corporate strategic decisions. Thus, a key difference between the agency theory and the upper echelons theory is that while agency theorists posit that any heterogeneity in organizational outcomes can be traced to different corporate governance arrangements, upper echelons theorists support the idea that firms’ heterogeneous actions and outcomes are derived from differences among top executives.

In the hospitality literature, little attention has been paid to the upper echelons perspective in explaining hospitality firms’ strategic choices and organizational outcomes. The restaurant industry has a unique characteristic in that top executives have a relatively high level of managerial discretion (Finkelstein et al., 2009; Hambrick & Finkelstein, 1987). In other words, CEOs in the restaurant industry have a great deal of latitude to act and exert their influence on strategic decisions and organizational outcomes compared to the counterparts in other industries. Nonetheless, hospitality scholars tend to be oriented toward investigating the financial outcomes of hospitality firms’ strategic choices, rather than focusing on antecedents of strategic decisions (Hua & Upneja, 2011; Lee et al., 2011a; Youn et al., 2015). Moreover, although some studies have examined why hospitality firms shape their strategic choices differently, those studies tend to focus on firm-specific or external factors in explaining a heterogeneity in firms’ strategic decisions (Park & Jang, 2010; Sun & Lee, 2013). Some hospitality scholars have recently started paying particular attention to the upper echelons theory (Lee & Moon, 2017; Lee et al., 2016). However, those studies are limited to investigating the effect of simple demographic characteristics of top executives (e.g., age, gender, tenure, educational background, etc.) on strategic choices. So far, no hospitality study has
attempted to develop an integrated framework for understanding how CEOs’ characteristics affect TMT composition and how the particular characteristics or composition of the TMT lead to innovative strategic actions and outcomes. Hence, this dissertation attempts to fill this research gap by investigating how CEOs’ human capital can be manifested in organizational outcomes (i.e., social novelty and strategic novelty).

Human capital can be defined as the knowledge, information, ideas, skills, and health of an individual (Becker, 1962, 1964). Human capital theorists suggest that individuals with a high level of human capital are likely to possess a wide range of cognitive abilities and experiential stock. Thus, individuals with greater human capital can help their firms conduct more efficient and productive actions, thereby achieving and retaining competitive advantages and better performance (Becker, 1962, 1964; Hitt et al., 2001; Mincer, 1974; Schultz, 1959). A CEO’s human capital can be classified into general human capital and firm-specific human capital (Becker, 1962; 1964). General human capital refers to knowledge and skills that can be transferred across different firms or industries, whereas firm-specific human capital is only valuable at the current firm (Becker, 1962; 1964).

According to the human capital theory (Becker, 1962; 1964), it is perceived that generalist CEOs are more likely to possess broader cognitive and experiential stock than specialist CEOs who have a large amount of firm-specific human capital. They also tend to show certain characteristics, such as a propensity toward risk-seeking, openness to new experiences, and an awareness of a wide array of alternatives (Crossland et al., 2014), and gain greater expertise with firm-specific resources over time in order to improve and maintain a long-term relationship with investors (Murphy & Zabojnik, 2007), enhance
their environmental fit (Gritsko et al., 2013), and facilitate recovery from financial
distress (Gilson & Vetsuypens, 1993). Custodio et al. (2017) also revealed that generalist
CEOs are more likely to engage and initiate innovative and novel projects than specialist
CEOs. Moreover, generalist CEOs are paid at a premium compared to those with firm-
specific skills due to their high profiles in the market and ability to extract more rents
(Custodio et al., 2013).

One of the most noticeable trends in corporate America over recent decades has
been a significant increase in the proportion of CEOs with a wide range of diverse
backgrounds and experiences (Crossland, et al., 2014; Custodio et al., 2013). That is, the
number of generalist CEOs who have general managerial skills accumulated from various
functional areas, firms, and industry sectors has been increasing along with the trend that
general managerial skills have recently become more important than firm-specific skills.
The restaurant industry is no exception. For instance, Starbucks CEO Kevin Johnson, a
successor to Howard Schultz, is one of the great examples of generalist CEOs. He started
his career in the IT industry, as a software developer in IBM, and has also worked for a
non-profit organization, in government advisory during Bush and Obama administrations,
and in various functional positions with Starbucks.

Based upon the upper echelons theory (Hambrick & Mason, 1984) and human
capital theory (Becker, 1962; 1964), this dissertation attempts to investigate how different
characteristics of CEOs (i.e., generalist vs. specialist) affect social and strategic novelty. I
adopt these two novelty constructs developed by Crossland et al. (2014): “social novelty”
and “strategic novelty.” In essence, social novelty is defined as the degree of dynamism
and diversity within the top management team (TMT), whereas strategic novelty
represents a wide range of a firm’s strategic choices that are associated with new, novel, and innovative actions. Following the recent study by Crossland et al (2014), this dissertation further develops upon the topic of strategic novelty by incorporating two corporate strategies (i.e., internationalization and franchising strategy) that are largely accepted within the restaurant industry. Specifically, I include those two strategies largely utilized by restaurant businesses in developing a composite measure of strategic novelty in this dissertation. For social novelty, this study considers two distinct elements (i.e., TMT heterogeneity in demographic characteristics diversity within a year and TMT member change on a yearly basis) in order to create a composite measure of social novelty.

This dissertation also investigates the moderating role of CEO power in the relationship between generalist CEOs and social novelty. Even though CEOs are less constrained in exerting their personal characteristics in the decision-making process, their power relative to the board of directors can vary significantly. Thus, examining how CEO power plays a role in this relationship can bring meaningful implications to the upper echelons perspective and agency theory as well.

Despite the increasing interest in the role of top managers in shaping organizational processes and outcomes, a limited number of studies has employed the upper echelons perspective, especially to the restaurant industry. Given the importance of creating and developing creative and innovative strategic choices for restaurant firms to maintain their market share or survive in this competitive market, it is quite surprising that the hospitality literature has paid little attention to this research stream. Thus, this
dissertation focuses on the antecedents and consequences of TMT composition and how the strategic outcomes from those schemes affect firm performance.

1.2. Statement of Purpose and Research Objectives

The purpose of this dissertation is to develop a holistic framework for a better understanding of how the effects of generalist CEOs are manifested in organizational outcomes (i.e., social novelty and strategic novelty). As the restaurant industry faces numerous challenges from a competitive and dynamic environment in which restaurant firms are required to undertake innovative initiatives in order to deliver exceptional products and services (NRA, 2019), understanding the role of restaurant CEOs in the composition of TMT that can largely account for firms’ strategic directions and choices can be important research questions. In addition, previous studies that investigated the relationship between a firm’s strategic novelty and financial performance have yielded inconsistent results. Thus, this dissertation attempts to draw the performance implications of strategic novelty from the risk perspective, which can be deemed a more appropriate approach in that the consequences of strategic novelty largely involve the inherent nature of uncertainty and volatility.

In sum, the research objectives of this study are: (1) to examine how generalist CEOs affect social novelty and strategic novelty and the mediation effect of social novelty in the relationship between generalist CEOs and strategic novelty; (2) to investigate the moderating effect of CEO power relative to board members in the relationship between generalist CEOs and social novelty; and (3) to explore the effect of strategic novelty on a firm’s financial performance.
1.3. Significance of the Study

This dissertation will contribute to both the upper echelons theory and human capital theory in the hospitality literature. First and foremost, despite the important role of restaurant CEOs in creating TMT composition and developing strategic choices, the hospitality literature has not given sufficient attention to how top executives’ characteristics can shape the way they establish TMT composition and choose certain strategies over other options. Thus, this dissertation will enrich both the upper echelons perspective and human capital theory by examining how different characteristics of generalist vs. specialist CEOs are manifested in organizational outcomes. This dissertation also investigates the mediating effect of social novelty in the relationship between generalist CEOs and strategic novelty so that I can suggest a more holistic approach to understanding how organizational processes and decisions are made within an organization. Moreover, although CEOs are described as less constrained in exercising their personal characteristics on organizational outcomes, their power relative to that of board members can vary significantly. Finkelstein et al. (2009) suggested that CEO power can be one of the important moderators in explaining the effects of CEOs’ characteristics on organizational outcomes. In this regard, examining CEOs’ power would add meaningful value to the upper echelons theory and as well as the agency theory.

Second, most previous studies in the general management context have considered particular strategic choices (e.g., R&D, the use of long-term debt, capital
investment, etc.) in developing and measuring strategic novelty. However, this dissertation further develops the construct of strategic novelty developed by Crossland et al. (2014) by including the degree of internationalization and franchising. Internationalization is one of the most widely utilized corporate strategies within the restaurant industry. Franchising is also a strategy quite unique to the restaurant sector. Hence, this investigation will bring valuable insights and suggestions to the restaurant literature.

Third, the previous literature on the relationship between strategic novelty and performance have shown inharmonious results. While some studies have indicated that corporate strategic changes can increase a firm’s performance (Haveman, 1992; Klette & Kortum, 2004; Zajac & Kraatz, 1993), other studies have showed that strategic change can decrease its performance (Chang & Robin, 2008; Jauch et al., 1980; Singh et al., 1986). Yet another set of studies found insignificant or mixed results (Jansen et al., 2006; Kelly & Amburgey, 1991; Laursen & Salter, 2006; Smith & Grimm, 1987). Thus, given the risky nature of strategic novelty, this dissertation attempts to examine the effect of strategic novelty from the risk perspective. That is, this study focuses on the variance of possible performance outcomes (i.e., extremeness and volatility) instead of investigating simple performance implications. Therefore, this dissertation enriches the literature, providing a more nuanced understanding of the effects of strategic novelty on firm performance.

Lastly, the findings of this dissertation also present important practical implications. Investigating the effect of generalist CEOs on social novelty and strategic novelty can provide a better understanding of the role of the CEO in influencing
organizational decisions. Considering the importance of establishing an organizational environment where creative and innovative initiatives are developed and promoted, especially in the restaurant sector, it is important to have concrete knowledge of what types of leadership an organization needs. In other words, the findings will advise shareholders on which type of CEO would benefit their organization given their organizational situations. The examination of the moderating effect of CEO power relative to that of board members will also provide restaurant practitioners with a better understanding of how corporate governance affects the degree to which CEOs’ propensity toward certain strategic decisions are manifested in organizational outcomes. The findings of this study will also offer important insights to restaurant managers as to how firms need to assess the performance outcomes of strategic novelty.
CHAPTER 2
LITERATURE REVIEW

2.1 Upper Echelons Theory

Bounded rationality, proposed by Carnegie theorists (Cyert & March, 1963; March & Simon, 1958), describes the cognitive limits of decision-makers and explains why decision-makers make the choices they do. Carnegie theorists argue that decision-makers in organizations are rational with limits and tend to show personalized selective perceptions of their task in the decision-making process. That is, complex decisions are largely shaped by the outcomes of behavioral factors rather than attempts to achieve economic optimization.

The upper echelons theory, set forth by Hambrick and Mason (1984), is rooted in the concept of bounded rationality. This theory argues that top executives make strategic decisions on the basis of their psychological orientations (i.e., beliefs, cognitions, and values). In addition, their demographic characteristics, such as age and educational and functional backgrounds, can be good proxies for psychological constructs that influence and shape their interpretations of internal and external environments and strategic choices. Since the advent of the upper echelons theory, many scholars across various disciplines have investigated how top executives’ characteristics, experiences, personalities, and values are manifested in their strategic choices and organizational outcomes (Finkelstein et al., 2009).

While scholars in leadership and strategic management support the idea that top executives have considerable sway over organizational outcomes (Hambrick & Mason, 1984; Hambrick & Quigley, 2014), those who support the population ecology (Hannan &
Freeman, 1977) and new institutional theory (DiMaggio & Powell, 1983) have argued that top executives are largely constrained by organizational inertia, isomorphism, and institutional pressures, suggesting that they have a minor influence on organizational outcomes (Lieberson & O’Conner, 1972).

To reconcile these conflicting perspectives, Hambrick and Finkelstein (1987) introduced the concept of “managerial discretion,” which can be defined as a manager’s latitude of action. This concept can explain why top executives matter more in some situations or contexts than in others. The extent to which top managers influence organizational outcomes is largely based upon environmental (e.g., market growth and product differentiability), organizational (e.g., organizational inertia and resource availability), and individual resources (e.g., aspiration level and political acumen). Each of these resources can constrain the behaviors of top executives or enable them to take strategic actions in organizations.

The restaurant industry is characterized as having a relatively high level of managerial discretion because it has unique characteristics such as a high level of market growth rate, product differentiability, and demand instability (Finkelstein et al., 2009; Hambrick & Finkelstein, 1987). In other words, top executives in restaurant firms tend to have relatively more influence on strategic choices and decisions than those in other industries. Despite the considerable influence of top managers on strategic decisions and organizational outcomes in the restaurant industry, many empirical studies in the restaurant context have tended to focus heavily on firm-specific factors in explaining why firms choose certain strategies over other options, neglecting top executives’ influence from the upper echelons perspective.
Link between CEOs’ psychological processes and strategic choices

Strategic management research has suggested that a firm’s CEO is an important member of the firm’s dominant coalition and has a profound impact on the strategic direction and performance of the firm (Hambrick & Mason, 1984; Peterson, Smith, Martorana, & Owens, 2003). Hambrick (1994) pointed out that a CEO has a disproportionate, sometimes dominating, influence on the firm. Finkelstein and Hambrick (1996) also asserted that not only does the CEO have overall responsibilities for the firm’s management but also that the CEO’s characteristics are of serious consequence to the firm.

Research on the impact of CEOs has focused on their psychological processes, describing how CEOs broadly evaluate themselves and their relationships to the environments across situations (Hiller & Hambrick, 2005). The underlying premise of this research stream is that CEOs confront many stimuli, laden with high degrees of ambiguity, complexity, and contradiction. In addition, their characteristics greatly enter into how they distill and process this information. By filtering how CEOs construe the reality of strategic situations and evaluate strategic responses, psychological attributes of CEOs predispose them toward certain choices (Finkelstein & Hambrick, 1996).

The upper echelons theory (Hambrick & Mason, 1984) and CEO psychology (Hiller & Hambrick, 2005) literature suggest that psychological attributes of CEOs influence their strategic choices through a three-stage filtering process: 1) defining a field of vision; 2) selective perception; and 3) interpretation. This filtering process is considered central to developing strategic choices.
In the strategic situation, which consists of many facts, events, trends, and other potential stimuli existing inside and outside the organization, top executives are confronted with far more stimuli than they can possibly fully comprehend. With the logic of this “bounded rationality,” top executives will be exposed to only a subset of all potential stimuli. Psychological attributes determine how intensely executives search for information, how much information they scan, how they learn about external environmental and internal organizational events and trends, and which sources they rely on to obtain and disseminate information (Hambrick, 1982; Miller & Toulouse, 1986). This process defines an executive’s focus of attention or field of vision, which serves as a filter between an objective strategic situation and the subjective reality of the situation construed by the executive (Finkelstein & Hambrick, 1996). For example, a CEO with an internal locus of control will commit more to environmental scanning by using a wider array of sources than a CEO with an external locus of control will use (Finkelstein & Hambrick, 1996). Thus, internally focused CEOs develop broader fields of vision than externally focused CEOs, enabling a firm to develop a comprehensive awareness of new resources and opportunities and better understand competitors’ moves (Nadkarni & Narayanan, 2007). Consequently, it is impossible for them to be aware of all directions or perceive every possible facet of an event.

Furthermore, an executive selectively perceives only a fraction of the stimuli even within his or her field of vision. Which stimuli an executive attends to and which he or she ignores are closely tied to their psychological attributes (Finkelstein & Hambrick, 1996). For example, suppose an executive is reading a periodical about the industry. Even though an executive’s eyes may glance over every page, he or she will not be able to
comprehend every single word. The executive’s interest, general preferences, or even regard to the publishing company may impact his or her perception toward the issues. This process of noticing (Starbuck & Milliken, 1988) is a complex function of what is familiar and unfamiliar to executives. Schimizu and Hitt (2004) insisted that a strong selective perception bias is a major barrier to executives making flexible strategic choices because it prevents executives from being sensitive to critical information and makes them complacent. Not enough research has been conducted to empirically examine executives’ selective perception. However, it is clear that an executive perceives only a portion of what he or she sees and listens to.

Interpreting or attaching meaning to perceived stimuli is the final step of the filtering process. This is also referred to as “sense-making,” a process composed of understanding, explaining, extrapolating, and predicting the effect of stimuli (Starbuck & Milliken, 1988). Such an interpretation process can form the basis for evaluation and strategic options. Some previous research investigated this process of sense-making: managers’ interpretations of stimuli as opportunities or threats, depending on their risk propensity (Dutton & Jackson, 1987), how they categorize or group stimuli (Day & Lord, 1992), and how they draw conclusions using stimuli (Milliken, 1990).

To summarize, these three stages (field of vision, selective perception, and interpretation) may interact in non-sequential ways (Finkelstein et al., 2009). Most importantly, one executive’s construed reality may be quite different from another’s. In the array of massive stocks of information and great ambiguity, no two executives will necessarily identify a strategy in the same way. It is the “executive’s orientation,” a personal set of psychological and observable characteristics, that engages the filtering
process, yields a construed reality, attributes to strategic choices, and finally affects organizational performance.

To discuss this filtering process further, we need to understand what constitutes an executive’s orientation. The previous literature has established that the two major personal characteristics of executives are psychological properties, such as values, cognitive models, and personality, and observable dimensions of executives’ experiences, such as functional background, tenure, and formal education (Finkelstein et al., 2009). Although measures of executives’ psychological characteristics and experiences have pros and cons, these two constructs of executives’ orientation are mutually correlated and affect each other.

2.2 Human Capital and Generalist CEOs

Human capital theory suggests that individuals and society can derive economic benefits and values from investments in people (Becker, 1960, 1964; Schultz, 1960). Although this theory was originally developed to examine the economic value of education, it has been applied to human resource management practices (e.g., compensation, selection, training, etc.). In general, human capital refers to the knowledge, information, ideas, skills, and health of an individual that have economic value to firms (Becker, 1964; Schultz, 1960). However, there are several components to the definition of human capital. First, knowledge and skills represent capital because they can increase and enhance productivity. People with a high level of knowledge and skills can add value to a firm via important activities such as coordinating work in the department and solving problems and exercising judgment in novel situations (Parnes,
Second, human capital is the result of a firm’s efforts to make a deliberate investment either through developing individuals in-house or hiring certain individuals in the market. A firm’s investments in human capital can only be justified if they can produce positive future returns through increased productivity (Rumberger, 1987). Third, since human capital can be valuable and transferable to other firms, it commands a price on the market (Parnes, 1984). This transferability is a key difference between physical capital and human capital. In other words, human capital is embedded in individuals who can freely move from one firm to another, and firms do not actually own human capital (Becker, 1984).

Within macro organizational research, identifying and understanding the critical determinants of organizational performance have long been an important agenda (Rumelt et al., 1994; Summer et al., 1990). Over the past couple of decades, resource-based view (RBV) proponents have highlighted the important role of human capital in explaining why some firms outperform others (Barney, 1991; Barney, Wright, & Ketchen, 2001; Crook et al., 2008). They argue that the heterogeneity in the distribution of valuable resources among firms can explain performance differences and those who possess valuable resources that other firms cannot easily duplicate or substitute for will outperform their competitors lacking such resources (Barney, 1991). Knowledge and skills embedded in human capital can be the most universally valuable and imperfectly imitable resources (Grant, 1991; Kogut & Zander, 1992). In the strategic management research, human capital has consistently been viewed as critical drivers of a firm’s strategic choices and performance (Andrews, 1965; Chandler, 1962; Hambrick & Mason, 1984).
Human capital helps individuals integrate and adapt to new knowledge and situations. In addition, individuals with a high level of human capital tend to possess more cognitive abilities that lead their firms to conducting more efficient and productive activities and, in turn, achieving competitive advantages and better performance (Becker, 1964; Hitt et al., 2001; Mincer, 1974; Schultz, 1959). Human capital can be accumulated via various channels such as formal education, experiences, and practical on-the-job learning. Thus, both a broad labor market and specific vocationally oriented experiences are theoretically predicted to increase human capital (Becker, 1964).

Human capital theory suggests that a CEO has an individual stock of knowledge, skills, and resources that can shed light on organizational outcomes (Boone et al., 1996). A CEO’s human capital has an influence on various firm-related strategic choices and outcomes (Harris & Helfat, 1997; Miller et al., 2015). Building on Becker’s notion (1964), researchers have focused on two types of managerial human capital: (1) general human capital that is not specific to any organization and transferable across firms or industries and (2) firm-specific human capital that is valuable only within an organization (Custodio et al., 2017). Generalist CEOs who have lots of experiences and expertise in different firms or industries can promote the development of diverse cognitive functions and maps that produce various interpretations of problems and solutions (Walsh, 1988). They can also assemble and coalesce knowledge and skills that can be utilized across a wide range of strategic situations (Li & Patel, 2018). Generalist CEOs’ abilities to leverage their various experiences and pursue divergent strategic options allow them to better fulfill their entrepreneurial roles compared to specialist CEOs (Dutton & Duncan, 1987).
Modern corporations show a greater appetite for recruiting outside CEOs who have general managerial skills accumulated over a lifetime of work experience, and general managerial skill sets have recently become more critical than firm-specific skills in CEO functions (Murphy & Zabojnik, 2007). Moreover, one of the most salient trends in corporate America has been the remarkable increase in the proportion of generalist CEOs with a wide range of career backgrounds and experiences (Crossland et al., 2014). The increased importance of CEOs’ general skills could result from rapid changes in technology and management practices that augment the effect of CEOs’ capabilities on firm value (Garicano & Rossi-Hansberg, 2006), changes in the product market due to industry deregulation (Cunat & Guadalupe, 2009), increasingly turbulent environments (Li & Patel, 2018), and the need for CEO involvement in stakeholder relation efforts (Murphy & Zabojnik, 2007). The preference for generalist CEOs can be rooted in the logic that corporate leaders need to be able to handle and solve a variety of problems that demand diverse career experiences (Lazear, 2012). They capitalize on a variety of cognitive resources derived from divergent career experiences to deal with uncertainties and complexities that exist outside and inside the organization.

Aware of general abilities and broader cognitive maps, generalist CEOs are more likely to be risk-seeking (Custodio et al., 2013; May, 1995), spur corporate innovations (Custodio et al., 2017), and sometimes underestimate possible negative outcomes in initiating strategic actions (Sitkin & Pablo, 1992). Moreover, generalist CEOs tend to develop organizational resource configurations that deviate both from previous configurations and from industry norms (Crossland et al., 2014; Deephouse, 1999) and
have a panoramic view of possible strategic choices, internal resources, and capabilities (Li & Patel, 2018).

2.3 Study 1: How Generalist CEOs Shape Strategic Novelty

2.3.1 The Mediation Effect of Social Novelty on the Relationship Between Generalist CEOs and Strategic Novelty

Previous literature on generalist CEOs

Innovations within organizations can be defined as the generation, development, and implementation of new ideas or initiatives to the adopting organizations. They encompass new products, services, strategies, structures, or administrative systems pertaining to organizational members. The adoption of innovative activities is intended to contribute to organizational performance and changes to the adopting companies (Daft, 1982; Damanpour, 1991). Although there is no universal definition of strategic novelty, strategic novelty is generally referred to as a firm’s innovative or risky strategic actions, such as R&D investments, frequent strategic changes in various corporate decisions, or distinctiveness in those strategic choices from other competitors within the same industry (Crossland et al., 2014).

The CEO is an entrepreneur figure crucial to determining the innovative attitudes and directions of the business, and his or her qualities are the determinants of the overall management style of the firm (Rothwell, 1977). CEOs’ abilities to break free from the chains of bureaucracy, create new situations, and expedite innovation are critical components of developing innovative actions within the organization (Cannon, 1985).
The relationship between CEOs’ characteristics and firms’ innovative and risky strategic choices can be explained by three assumptions. First, since innovative and risky initiatives have, in general, the higher failure rate and require large investments, CEOs have greater discretion to control them in firms (Green, 1995; Mansfield, 1968). Second, CEOs have the greatest organizational power to influence innovative and risky activities, as they are the key strategic decision-makers sitting at the top of a hierarchy and control the composition of other executives, who are also largely involved in strategic decision-making as well (Zahra & Pearce, 1989). Lastly, the upper echelons perspective (Hambrick & Mason, 1984) clearly illustrates the importance of CEOs’ characteristics or preferences in explaining the determinants of a firm’s novel initiatives.

Many previous studies have conducted empirical tests on the relationship between CEOs’ characteristics and innovative initiatives. One of the most enduring findings about CEOs’ demographic characteristics is that older CEOs tend to be more conservative and risk-averse than younger ones. They may implement less organizational changes because they have less mental and physical stamina, more difficulty grasping and learning new ideas, and possibly different incentives. Also, given that innovative initiatives will pay off in the long term, older CEOs, who have only few years left before retirement, may not personally benefit from engaging those actions (Child, 1974; Hambrick & Mason, 1984). Hambrick et al. (1999) found that CEOs are likely to make fewer organizational and strategic changes as their tenures progress because they become more strongly committed to pursuing their own paradigms for how the organization should be managed and operated. Longer-tenure CEOs may have little interest in implementing innovative
strategies (e.g., R&D investment, entering new markets, etc.), preferring instead to focus on stability and efficiency.

In light of the relationship between CEO career experience and innovative strategies, CEOs with more experience in output functions (i.e., engineering, R&D, marketing, and sales) will show a preference toward innovative strategies because these functional positions focus on growth via the discovery of new markets, products and services (Finkelstein & Hambrick, 1996; Hambrick & Mason, 1984). On the other hand, CEOs with significant experience in throughput experiences (i.e., accounting, finance, production, administration, and legal) tend to emphasize the improvement of organizational efficiency. Thus, they may view innovative strategies more like discretionary expenses that are subject to efficiency concerns and may be reluctant to pursue innovative actions.

A number of studies have also examined the effects of CEOs’ education levels on innovative activities. This stream of literature has found that more educated CEOs have a greater level of cognitive complexity that provides significant ability to absorb new ideas and accept innovations (Hitt & Tyler, 1991; Wally & Baum, 1994). In addition, CEOs who have completed MBA programs or developed a business background are less likely to pursue innovative strategies because those educations, in general, teach analytic skills geared toward avoiding or reducing big mistakes or losses (Finkelstein & Hambrick, 1996; Hambrick & Mason, 1984). In contrast, CEOs with educational backgrounds in science and engineering have a greater understanding of innovation and technology (Tyler & Steensma, 1998).
Agency theorists have long argued that CEOs with significant stockholdings will undertake more risky projects or investments that will be paid off in the long run. Stock options are one of the maximizing methods and largely co-aligned with shareholder wealth (Jensen & Murphy, 1990).

In a study that attempts to investigate CEOs’ characteristics and IT adaptations (Thong & Yap, 1995), they posited that innovative CEOs are more likely to look for more radical and risky projects than less innovative ones, and CEOs who have more positive attitudes toward the adoption of IT are likely to adopt innovative activities because they view the adoption of innovative strategic choices as beneficial and advantageous to their business. Moreover, their enhanced knowledge of IT can reduce the degree of the uncertainty embedded in risky projects. They revealed that CEOs who are more innovative, knowledgeable about IT, and have positive attitudes toward the adaptation of IT, are more likely to pursue more risk-taking and innovative behaviors by adopting IT.

CEOs’ managerial abilities are also essential to a firm’s innovative projects. First, better able CEOs are more likely to be trusted by shareholders and other stakeholders and encouraged to invest risky innovative projects because they can signal their superior skills to the market, and thus, their increased trust perceived by the shareholders will result in lower financing costs, which makes receiving subsequent investments in innovation easier (Baik et al., 2011; Demerjian et al., 2012). Second, better able CEOs can effect innovative projects through the creation of the most optimal framework for research staff in order to maximize their creative potential (Chen et al., 2015). Previous studies have shown that employee treatment and employee compensation are critical
factors that affect innovative success (Chang et al., 2015; Chen et al., 2015). Thus, although CEOs may have little influence over innovative initiatives or outcomes, per se, they indeed play a pivotal role in creating an environment that extracts significant value from a firm’s human capital.

Generalist CEOs are individuals who have a wide range of work experiences in various functional areas, firms, and industry sectors and thus tend to possess broader cognitive and experiential stock. They are likely to have certain characteristics such as risk propensity, openness to experience, and awareness of wide array of paradigms and exemplars, and a broad professional network (Crossland et al., 2014). Custodio et al. (2017) also argued that given generalist CEOs’ diverse business and functional experiences compared to those with focused professional background and experiences, they are more likely to engage in novel projects due to their insensitivity to risk.

Although CEOs’ predominant functional orientations can be reflected in their functional backgrounds (i.e., throughput vs. output), the variety of functional areas to which they have been exposed throughout their careers reflects the breadth of their functional perspectives (Gupta, 1984). Functional diversity is associated with a wider range of planning openness and perspectives to process a broader range of information and generate more options in the decision-making process (Bantel, 1994; Bonn, 2005). More specifically, CEOs who are specialized in a particular functional area tend to have a particular inclination toward the specific mode of thinking and acting optimized for that functional position. In other words, the way that they perceive and interpret problems and seek solutions is highly consistent with their limited functional backgrounds (March & Simon, 1958). In contrast, CEOs with a variety of functional experiences are likely to
explore alternatives and make decisions from a broader range of functional perspectives (Dearborn & Simon, 1958). Therefore, the extent of the heterogeneity in CEOs’ functional experiences affects the various functional perspectives that they bring to their tasks in firms and the way in which they identify problems and make decisions. In general, it is perceived that specialization in a particular functional area is likely to be valued in a stable environment where means-ends ambiguity rarely exists and competitive variations are limited (Haleblian & Finkelstein, 1993). On the other hand, in industries where a cause-effect relationship cannot be easily understood and multiple ways to compete and high growth rate are present, CEOs with heterogeneous functional backgrounds are more likely to be valued due to their broader range of knowledge and alternatives from various functional perspectives and their ability to evaluate possible outcomes from the different viewpoints developed by their various functional areas (Rajagopalan & Datta, 1996).

Past researchers argued that CEOs’ firm tenure affects both their cognitive orientations and knowledge bases. In terms of cognitive orientations, long-tenured CEOs are associated with restricted information processing and resistance to external pressures (Miller, 1991), increased cognitive rigidity (Bantel & Jackson, 1989), and commitment to current policies and practices (Hambrick et al., 1993). In terms of knowledge base, previous studies have found that long-tenured top executives within one organization are more likely to develop a high level of firm-specific knowledge. However, those with long tenures tend to possess relatively limited perspectives and conduct a constrained search of alternatives (Pfeffer, 1983). Empirical studies have shown that long-tenured executives are associated with efficiency-oriented strategic choices and stability, whereas short-
tenured ones are associated with product-market innovation and differentiation among strategic choices (Chaganti & Sambharya, 1987). Hambrick and Fukutomi (1991) also suggest that long-tenured CEOs are more likely to become risk-averse and committed to the status quo.

CEOs’ industry tenure can also reflect their skills, knowledge, and cognitive orientations (Hambrick et al., 1993). CEOs with longer industry tenure are more likely to have a restrictive knowledge base from which to do research in the face problems (Rajagopalan & Datta, 1996) and show a greater psychological commitment toward the status quo (Guthrie et al., 1991). On the one hand, in-depth industry knowledge and familiarity can be considered important managerial assets (Gupta, 1984). However, too much industry wisdom may restrict CEOs’ vision and openness to alternatives that deviate from industry norms. These characteristics can be an advantage in implementing efficiency-focused strategies. For instance, in-depth understandings of the industry can lead to the development of best practices to reduce operating costs in that particular industry. A limited perspective to solve organizational problems may ensure that organizational resources are not wasted in searching outside of the firm’s stable domain. Moreover, commitment to the status quo allows firms to lower costs by quickly riding down the experience curve. However, CEOs’ short industry tenure may be an advantage when implementing a market-focused strategy (Strandholm et al., 2004). Nonetheless, a knowledge base beyond industry-specific knowledge may be needed to find new and varied ways to compete against others in the market (Rajagopalan & Datta, 1996). That is, in the rapidly changing environment in which market-focused firms operate, a broader search is required to seek for solutions for organizational problems, and reduced
commitment to the status quo may also be necessary as CEOs need to explore new terrain and ideas regarding new products and services.

*Link between generalist CEOs and strategic novelty*

Corporate strategic changes refer to the magnitude of changes in a firm’s resource allocations and priorities over time (Wiersema & Bantel, 1992). A firm with a high level of corporate strategic change shows a substantial year-to-year change in resource allocations across corporate strategies such as capital investment, capital structure, advertising, and research and development (Boeker 1997; Hoskisson & Johnson, 1992). The active alteration of this fundamental pattern can enable firms to adapt to changes in the environment (Carpenter, 2000), align their organizational focus with the current situation (van de Ven & Poole, 1995), and differentiate themselves from their competitors (Porter, 1996).

Initiation of strategic change is closely related to how top executives subjectively perceive their environments and identify and initiate strategic options (Gioia & Chittipeddi, 1991). Top executives’ attributes, such as educational and functional backgrounds and tenure, serve as a filter for how they perceive and interpret environmental stimuli and influence strategic changes (Boeker, 1997; Wiersema & Bantel, 1992). Strategic changes can result from top managers’ creative and innovative decision-making styles (Wiersema & Bantel, 1992).

Generalist CEOs who have diverse backgrounds and experiences across a variety of functional areas, different firms, and industry sectors are more likely to have a wide range of functional perspectives, develop product-market innovations and differentiation
strategic choices, and resist a commitment to the status quo (Bantel, 1994; Hambrick et al., 1993; Rajagopalan & Datta, 1996). They are also likely to come up with more unique ideas and have a predisposition toward novel and quantum initiatives. Based upon the unique attributes of generalist CEOs, this study posits that generalist CEOs are more likely to develop a wider range of innovative strategic options and have a preference for new opportunities and new markets over inertial, imitative mundane, and normative actions (Crossland et al., 2014). Thus, I propose that firms with generalist CEOs are more likely to show a higher level of variation over time with regard to corporate strategies than those with specialist CEOs.

Strategic disconformity refers to how much a firm’s strategic profile differs from that of other firms in a given industry. In other words, it reflects the degree to which a firm follows a prevailing industry norm (Geletkanycz & Hambrick, 1997). While generalist CEOs are more likely to be creative and question conventional practices, specialist CEOs tend to have relatively little experience with developing alternative strategic directives and display an inherent dispositional preference for established industry practices (Crossland et al., 2014). Moreover, generalist CEOs are more likely to generate original and unconventional approaches, and they are more likely to consider established industry norms as starting points to be transcended rather than standards to be closely followed.

On one hand, restaurant firms need to engage in innovative strategies in order to deliver exceptional services and products and meet consumers’ fastidious demands and needs (NRA, 2019). In addition, as the restaurant industry is considered to have a relatively high level of operational risk and suffer from severe market competition
Jogaratnam, 2017; Ottenbacher & Harrington, 2009), top executives need to promote and initiate innovative strategies in order to effectively handle all possible operational challenges (D’Aveni, 1994; Levine, 1987; Thompson, 1967). On the other hand, implementing innovation, in general, is accompanied by substantial operational costs that can put significant financial pressure on restaurant firms. Under these circumstances, restaurant firms led by generalist CEOs are more likely to engage in strategic novelty because their broader experiential and cognitive stocks accumulated by their variety of work experience make them both insensitive to inherent risks associated with strategic novelty and confident in generating positive outcomes through organizational innovation. Hence, I propose that restaurant firms with generalist CEOs are more likely to engage in frequent strategic change and show a strategic profile distinguished from industry practices.

Based on this rationale, the following hypotheses are proposed:

_Hypothesis 1: Firms with generalist CEOs are positively associated with strategic novelty._

_Hypothesis 1a: Firms with generalist CEOs are positively associated with strategic change._

_Hypothesis 1b: Firms with generalist CEOs are positively associated with strategic disconformity._

_Two idiosyncratic factors for the restaurant sectors_

Generally, when measuring strategic novelty (i.e., strategic change and disconformity), most of the previous literature considered strategies such as a firm’s
investment in R&D, long-term debt, capital, advertisement, and plant and equipment (e.g., Crossland et al., 2014; Gelekanycz & Hambrick, 1997). In addition to these investments, this dissertation takes into account the idiosyncratic characteristics that the restaurant industry has in defining strategic novelty (i.e., corporate strategic change and disconformity) by including an internationalization and franchising strategy. Internationalization strategy is one of the widely accepted corporate strategies in the restaurant industry. Further, franchising is also considered among the important and unique corporate strategic choices within the restaurant sector.

Internationalization can be defined as a firm’s strategy to expand its business into the overseas market (Hitt et al., 2007). The trend of the globalization of business and severe competition in the business market have motivated firms to explore alternative business opportunities outside of their home country. The restaurant industry is known to be highly sensitive to economic conditions and immersed in a highly competitive business market (Guillet & Mattila, 2010) where restaurant firms need to position themselves differently from their competitors in order to survive in the competitive market (D’Aveni, 1994). Despite the necessity of expanding products and services into a new foreign market, the internationalization strategy can be a risky initiative because the possible consequences of entering into international markets can be more unsure and insecure than the outcomes of establishing a new subsidiary in the home country.

Considering the different international forces identified by Bartlett and Ghoshal (1989), differences across countries can affect the restaurant industry in developing an internationalization strategy. The products and services of restaurant firms are heterogeneous in terms of the simultaneity of production and consumption and possible
customization (Boddewyn et al., 1986; Buckley et al., 1992), which require a local presence, responsiveness to local customers’ needs, and high initial costs. Therefore, it is critical for restaurant firms to understand a local demand and supply and enhance their local knowledge and cost efficiency (Erramilli, 1990). Moreover, internationalization requires restaurant companies to learn and acquire various cultural and institutional settings (Vermeulen & Barkema, 2002) and adjust to and change system processes and structures (Bartlett & Ghoshal, 1989) so that they can harmonize themselves in an international context where such processes are highly complicated and requisite. Thus, expanding into overseas markets and managing international operations are challenging and demanding tasks to management (Geringer et al., 1989).

In this manner, internationalization requires a deep understanding of diversities in terms of cultures, customers, competitors, and local policies and regulations (Gomez-Megia & Palich, 1997; Hofstede, 1980), especially in the restaurant industry. Specifically, restaurant firms encounter many operational risks, such as demand uncertainty, country risks, and unfamiliarity of locations in an overseas market (Fladmoe-Lindquist & Jacque, 1995). In addition, managing international diversification necessitates managerial skills and competencies for managing and coordinating sub-units of complex organizations and adapting to new contextual settings (Mayer et al., 2015). Those managerial capabilities can help to reconcile a complex environment and develop a sense of community in international markets in order to be successful (Bartlett & Ghoshal, 1989). Moreover, because the consequences of entry into foreign markets and expansion are less certain and less controllable than establishing a new subsidiary in a
firm's home country (Sitkin & Pablo, 1992), internationalization is considered a risky strategy (Caves, 1996).

Based on the above arguments that internationalization strategy requires firms to be equipped with abilities to understand and manage complex environments with which generalist CEOs’ characteristics are well-matched, I propose that generalist CEOs who have a dispositional tendency toward new experiences, novel initiatives, and risk propensity are more likely to expand their business into overseas markets than specialist CEOs.

Franchising is defined as a contractual relationship between two parties (i.e., franchisor and franchisee). Under this contract, franchisors provide business concepts, systems, and trademarks to franchisees in an attempt to expand their businesses at the expense of franchisees, and, in turn, franchisees have to pay initial and royalty fees to franchisors for the use of the franchisors’ established brand and proven business systems for their business operations (Combs & Ketchen, 2003). The franchising strategy can be beneficial for both parties. Franchising helps franchisors to rapidly expand their business through a well-established distribution system and receive stable fees from franchisees. It also allows franchisees to become a part of the franchisor’s business chain, which is already proven in the market and set up to receive various operational and technical assistance (e.g., site selection, recipe, store design, etc.) from franchisors.

The franchising literature has developed various frameworks to explain the antecedents and consequences of franchising strategy. Among many theoretical foundations, agency theory (Jensen & Meckling, 1976), resource-scarcity theory (Hunt, 1973), and risk-sharing theory (Martin 1988) have enriched our understanding of the
benefits that a franchising system can bring to individual firms (Combs & Ketchen, 2003; Koh et al., 2009). According to agency theory (Jensen & Meckling, 1976), an agency problem occurs when the desires or goals of the owners (principals) and managers (agents) conflict and it is difficult for owners to verify what managers are actually doing. Thus, firms need to bear the agency costs to ensure that agents are acting in the companies’ best interests. From the agency theory perspective, firms are motivated to initiate a franchising strategy because it allows franchisors and franchisees to act in a cooperative way to maximize their own interests and it helps franchisors mitigate their monitoring costs. The fundamental idea behind the resource-scarcity theory (Hunt, 1973) is that franchisors can make use of franchisees’ resources to expand their business. Franchising fees provided by franchisees help franchisors expedite business growth and reserve funds for future growth opportunities (Norton, 1988; Shane, 1998). Lastly, the risk-sharing theory (Combs & Castrogiovanni, 1994; Martin, 1988) also describes the motivation for franchising. It argues that franchisors can reduce their business risks by locating franchising properties in which future performance is hard to predict and by receiving stable fees from franchisees that can reduce the volatility of cash flows (Roh, 2002). Roh (2002) showed that restaurant firms with a higher proportion of franchised units are negatively associated with the variability of their operating cash flow. The results of this study clearly support the risk-sharing theory in that franchising strategy reduces franchisors’ business risk, thereby possibly leading to a better firm performance. Similarly, Koh et al. (2018) demonstrated that under volatile economic conditions, restaurant firms’ with a high degree of franchising can achieve lower earnings volatility than those adopting a limited degree of franchising.
Based on the literature review, it is concluded that franchising is a widely accepted expansion strategy in the restaurant industry in order to stabilize a firm’s operations rather than taking on high risks and innovation. Thus, this dissertation proposes that generalist CEOs who have a dispositional tendency toward new experiences, novel initiatives, and risk propensity are less likely to expand their business through franchising.

*Link between generalist CEOs and social novelty*

Top managers’ prior experiences and their functional structure within the organization have long been a matter of great interest in the upper echelons literature (Hambrick and Mason, 1984). A large number of studies confirmed that TMT demographic characteristics and composition have significant impacts on a firm’s strategic choices and performance (Finkelstein & Hambrick, 1996). Over the last couple of decades, TMTs have increasingly become diverse (Nielsen & Nielsen, 2013); however, contextual factors that affect TMT diversity and link between TMT diversity and organizational performance have not yet been fully established in the literature.

TMT demographic heterogeneity refers to the compositional diversity within the top management team regarding various demographic dimensions, such as age, gender, educational background, and work experiences. TMT heterogeneity has been an important construct in TMT literature, as its characteristics are related to the breadth of a firm’s capabilities and a broader range of simultaneous processing capabilities and understanding toward multiple issues (Hambrick & Mason, 1984). Previous theories suggested that heterogeneous TMT may lead to both positive and negative consequences
Empirical studies also showed inconsistent results ranging from positive to negative; some research even found mixed outcomes for TMT diversity within the same study (Carpenter et al., 2004; Finkelstein et al., 2009).

The proponents of heterogeneous TMT argue that since heterogeneous TMTs are more likely to have a higher degree of diverse capabilities, experiences, and cognitive stocks, they provide a firm with a wide range of cognitive resources and capabilities for simultaneous information process (Hambrick et al., 1996). In addition, heterogeneous TMTs are more likely to seek out a variety of strategic alternatives in the decision-making process and eschew behavioral inertia that can be detrimental to developing organizational innovativeness (Eisenhardt & Schoonhoven, 1990; Milliken & Martins, 1996). Thus, heterogeneous TMTs are able to process more information thoroughly and consequently make strategic decisions in a more creative and comprehensive way (Bantel & Jackson, 1989; Hambrick et al., 1996). Previous empirical studies found such a relationship. For instance, Bantel and Jackson’s study (1989) showed that diversity in the functional backgrounds of TMTs is associated with a firm’s ability to establish new services in the banking industry. Murray (1989) also found that under conditions in which organizations face external pressure for change, heterogeneous TMTs tends to increase the probability of identifying new strategic choices.

Alternatively, there is an opposite point of view that heterogeneous TMTs may generate some drawbacks for team functioning and provoke socio-cognitive conflicts among TMT members. Specifically, increased TMT heterogeneity may lead to decreased cohesiveness, group identification, and effective communication among team members (Milliken & Martins, 1996). The similarity-attraction paradigm developed by Byrne
(1971) suggests that a dearth of mutual attraction arising from dissimilar attributes among team members can lead to an ineffective communication process where the coordination of interdependent and collective behavioral tasks is impeded. Moreover, social identity theory (Tajfel et al., 1979) argues that TMT heterogeneity can lead team members to dichotomize others into an “in-group” and an “out-group” based upon their demographic attributes, and they tend to identify themselves with more with “in-group” members who share similar demographic characteristics. Thus, this bias makes heterogeneous teams ineffective and unproductive in their tasks that require cooperation and cohesiveness among team members.

As this dissertation attempts to explore the antecedents and consequences of social novelty, I adopted the definition of social novelty from Crossland et al. (2014). In their study, social novelty is defined as the degree of variety and dynamism within the top management team. Although much of the literature has explored the consequences of a TMT’s characteristics or composition, relatively less attention was given to the determinants of TMT composition (Beckman & Burton, 2011). In general, there are three contextual factors (i.e., environmental, organizational, and CEO) that are considered to have pervasive influence on TMT composition (Finkelstein et al., 2009). In this dissertation, I attempt to focus on CEO effect in explaining the overall TMT demographic composition.

As CEOs play a key role at the top of the organization and are central figures of the TMT, they have a disproportionate influence on TMT composition and functioning (Jackson, 1992). Even though the importance of CEOs’ characteristics and their roles in shaping TMT composition is widely perceived, only a few studies have paid attention to
this relationship. As the essential idea of the upper echelon theory (Hambrick & Mason, 1984) is that organizations are a reflection of their top executives, it is quite logical to speculate that CEOs’ biases or personal preferences can be reflected in the TMT composition and characteristics.

TMT member change represents the extent to which the composition of TMT differs over time. It may arise from the addition of new TMT members, the departure of existing ones, or a combination of both. While stability exists among TMT members in some organizations, the regular modification of TMT members occurs in other organizations (Wiersema & Bantel, 1993).

Repeatedly, CEOs’ preferences are largely reflected in the characteristics of TMT interaction and processes (Jackson, 1992) and in the selection of TMT members as well (Crossland et al., 2014). As generalist CEOs will show their preferences for strategic novelty, they will also create social novelty that comprises year-on-year TMT member change and within-year TMT heterogeneity in demographic characteristics. Thus, I propose that generalist CEOs tend to develop diversity within the TMT because a heterogeneous TMT will be more likely to satisfy a wide variety of CEOs’ inherent motivational preferences for novelty and generate a wide range of strategic approaches and capabilities. Thus, the following hypothesis is developed:

_Hypothesis 2a: Firms with generalist CEOs are positively associated with TMT heterogeneity (age, tenure, and gender)._
of generalist CEOs tend to perceive more merit in various experiences and perspectives, they are more likely to be open to adding new TMT members or dismissing existing ones. Thus, I propose that generalist CEOs are more likely to be open to adding new TMT members and dismissing existing ones because they see merit in having new members who can bring fresh and diverse perspectives. I propose the hypothesis as follows:

*Hypothesis 2b: Firms with generalist CEOs are positively associated with TMT member change.*

*Link between social novelty and strategic novelty*

As a top management team largely engages in a firm’s strategic decision-making process, each member’s interpretations and perceptions toward current situations reflect his or her own cognitive bases (Hambrick & Mason, 1984; March & Simon, 1958). Because each member’s cognitive base is derived from his or her previous experiences and knowledge, demographic characteristics can be good proxies for beliefs, qualities, values, and viewpoints (Dearborn & Simon, 1958; Hambrick & Mason, 1984).

Demographic theory has received a great deal of attention because it serves as an important theoretical foundation in the study of organizations (Stinchcombe et al., 1968). The underlying assumption behind demographic theory is that demographic characteristics can influence the social dynamics of organizations, which in turn affect organizational outcomes (Pfeffer, 1983).

In investigating the influence of TMT demographics on a firm’s strategic outcomes, it is critical to differentiate between diversity and trait effects (Wiersema & Bantel, 1992). Demographic trait effects can explain the extent to which a certain
demographic characteristic that an individual has predicts his or her interpretations and perceptions. On the other hand, demographic diversity effects refer to the relative homogeneity or heterogeneity that a certain team has with regard to characteristics and indicate the degree to which team members collectively bring various available perspectives to the decision-making process. As mentioned previously, I focus on TMT heterogeneity and member change, which are defined and described as social novelty in this dissertation.

Previous studies suggest that a team’s demographic homogeneity can lead to a shared cohort membership derived from members’ organizational entry that would result in their similar exposure to various events such as social, environmental, and organizational experiences (Byrne, 1961; Pfeffer, 1981). Also, solidarity and mutual choices are more likely to occur among homogeneous team members, thereby generating a congruence in beliefs, perceptions, and values on how a firm operates (Pfeffer, 1983). In addition, homogeneous groups are likely to show a tendency to conform and commit to prior courses of actions and display a lack of openness to new information (Janis, 1972; Zander, 1977).

In contrast, demographic heterogeneity in TMT creates diversity in a team’s cognitive stock. Hambrick and Mason (1984) stated that a heterogeneous TMT is likely to collect information from a variety of sources and have divergent interpretations and perspectives. Dutton and Duncan (1987) also argued that differentiations in a team’s belief structure can enhance the ability to search for more information and effect positive attitudes and perceptions toward change.
Age is considered to be one of the critical demographic variables because it can predict an individual’s non-work-related experiences (Ryder, 1965). People of a similar age tend to have shared experiences that can lead to mutual attitudes and beliefs (Rhodes, 1983) and diversity in age allows a team to generate a variety of perspectives on strategic decisions. Thus, age diversity in the TMT can promote the consideration of corporate strategic change (Wiersema & Bantel, 1992). Time of entry into a group is also one of the important determinants of an individual’s communication pattern within the group (Allen & Cohen, 1969). Heterogeneity in TMT tenure indicates that distinct members of the TMT have been promoted at different times, leading to new and diverse perspectives in the strategic decision-making process for the organization (Wiersema & Bantel, 1992). Gender diversity in TMT is of particular importance. Increasing the number of female top executives is one of the ways to broaden the range perceptual views and potential solutions for the problems that a firm faces. It also helps a firm to enhance its abilities to explore new strategic opportunities and alternatives, as well as deal with changes in an external environment (Dutton & Duncan, 1987; Upadhyay & Zeng, 2014). TMT membership change occurs when new members join or existing members depart from the team, and it concerns the degree to which TMT composition differs over time. Member changes can bring several positive consequences to an organization, including infusion of new insight and knowledge, displacement of poor performers, and the adoption of new practices or a change to current poor practices (Mobley, 1982). Starbuck (1992) suggested that firms can acquire and maintain their organizational learning capabilities, especially through personnel shakeups within the organization. Nystrom and Starbuck (1984) also stated that hiring or removing new members especially under organizational
crises can help a firm to acquire fresh perspective and knowledge and to become a successful organization.

Drawing upon the previous literature, I posit that a higher level of demographic heterogeneity and member changes in TMT can contribute to the development of new perspective and knowledge and the initiation of innovative strategic choices for a firm. Thus, I propose that a greater level of social novelty in the organization is positively associated with a higher level of strategic novelty. The following hypotheses are developed:

**Hypothesis 3**: Social novelty in the TMT will be positively associated with a firm’s strategic novelty.

**Hypothesis 3a**: TMT age heterogeneity will be positively associated with a firm’s strategic novelty.

**Hypothesis 3b**: TMT tenure heterogeneity will be positively associated with a firm’s strategic novelty.

**Hypothesis 3c**: TMT gender heterogeneity will be positively associated with a firm’s strategic novelty.

**Hypothesis 3d**: TMT member change will be positively associated with a firm’s strategic novelty.

As hypothesized above, it is argued that generalist CEOs’ attitudes and preferences toward new and innovative strategic choices are likely manifested in a firm’s strategic novelty. On the other hand, it is logically plausible that generalist CEOs’ preferences toward creating greater diversity in TMT composition may precede their
influence on a firm’s strategic novelty. That is, generalist CEOs’ effects on a firm’s strategic novelty may occur partially through social novelty already developed by generalist CEOs. Thus, I propose the partial mediation effect of social novelty between generalist CEOs and a firm’s strategic novelty. Based on these rationales, I develop the following hypotheses:

Hypothesis 4: The positive relationship between generalist CEO and strategic novelty is mediated by social novelty (age, tenure, gender, and TMT member change).

Hypothesis 4a: The positive relationship between generalist CEO and strategic novelty is mediated by TMT age heterogeneity.

Hypothesis 4b: The positive relationship between generalist CEO and strategic novelty is mediated by TMT tenure heterogeneity.

Hypothesis 4c: The positive relationship between generalist CEO and strategic novelty is mediated by TMT gender heterogeneity.

Hypothesis 4d: The positive relationship between generalist CEO and strategic novelty is mediated by TMT member change.

2.3.2 The Moderating Effect of CEO Power on the Relationship Between Generalist CEO and Social Novelty

Power can be defined as the capacity of individuals who exert their own will (Hickson et al., 1971; Pfeffer, 1981). Child (1972) suggested that as power is central to a firm’s strategic choices, scholars need to investigate power to better understand how strategic decisions are made in the organization. As previously discussed, it is widely
accepted that a CEO is generally deemed the most powerful organizational member in the modern corporation (Daily & Johnson, 1997).

Finkelstein (1992) proposed and empirically assessed four dimensions of executives’ power (i.e., structure, ownership, expert, and prestige power). First, structural power is referred to as legitimate or hierarchical power. As this is based on a hierarchical structure in the organization, CEOs who sit at the top of the organizational structure have higher structural power over other executives (Hambrick, 1981; Tushman & Romanelli, 1983). A second form of power is ownership power. This power is attributed to the strength of CEO’s position especially in the agent-principal relationship. Hence, CEOs with a large number of shareholdings are more likely to have significant control over other top-level managers or the board of directors (Zald, 1969). Third, expert power is derived from the ability of CEOs to effectively deal with uncertainties and complexities in the external environment. CEOs who have a variety of functional experiences in different areas tend to develop contacts and relationships that are beneficial in addressing various environmental contingencies that the firm faces (Hambrick, 1981; Tushman & Romanelli, 1983). Lastly, an important source of power is an individual’s level of prestige or status. CEOs who are standing in the managerial elite can signal both within and outside of the organization about their importance. Prestigious CEOs can facilitate the absorption of environmental uncertainties and complexities and provide firms with access to external contacts that are invaluable to the firm (Useem, 1979).

This dissertation particularly focuses on the CEOs’ power relative to board members. Although CEOs are described as relatively unconstrained in exercising their personal characteristics or preferences into strategic outcomes, it is widely perceived that
the degree to which CEOs have power relative to their board of directors significantly differs among them. Some CEOs have a large amount of financial ownership over the firm relative to the board of directors that would confer more legitimacy and voting power (Morck et al., 1988). Also, as some CEOs serve as chairmen of the board but others do not, their structural power can also be different (Finkelstein & D’Aveni, 1994).

As different industries have their own unique corporate governance structures (Guillen, 2000), hospitality companies can also have idiosyncratic governance systems due to their particular industry characteristics, such as a high level of capital intensity (DeFranco & Lattin, 2006), frequent use of short-term decisions (Reich, 1994), and the separation of ownership from management (Guillet & Mattila, 2010). Under a fast-changing and dynamic environment, it is critical for CEOs to possess a high level of power because it can accelerate a strategic decision-making process and implementation (Palich et al., 2000). Thus, restaurant CEOs’ power is one of the important elements that needs to be considered in explaining how CEOs’ characteristics affect organizational outcomes. While some of the previous literature found that CEOs’ power can directly influence managerial dismissals and compensation schemes (Boeker, 1992; Grinstein & Hribar, 2004), CEOs’ power can also serve as an important moderator in the relationship between CEOs’ characteristics and strategic outcomes (Finkelstein et al., 2009). That is, CEOs’ power is likely to affect the degree to which their inclinations are manifested in forming the TMT composition. Accordingly, I propose that when generalist CEOs hold more power relative to their boards, their inclination toward social novelty will be amplified. Thus, I hypothesize:
Hypothesis 5: The positive relationship between generalist CEO and social novelty is moderated by CEO power.

Hypothesis 5a: The positive relationship between generalist CEO and TMT age heterogeneity is moderated by CEO power.

Hypothesis 5b: The positive relationship between generalist CEO and TMT tenure heterogeneity is moderated by CEO power.

Hypothesis 5c: The positive relationship between generalist CEO and TMT gender heterogeneity is moderated by CEO power.

Hypothesis 5d: The positive relationship between generalist CEO and TMT member change moderated by CEO power.

2.4 Study 2: How Strategic Novelty Affects Performance Extremeness and Volatility

The literature on the relationship between strategic novelty and firm performance has shown ambiguous results (Rajagopalan & Spreitzer, 1997). Some studies revealed that strategic change can enhance a firm’s performance (Haveman, 1992; Klette & Kortum, 2004; Zajac & Kraatz, 1993), whereas other studies showed that strategic change can decrease its performance (Chang & Robin, 2008; Jauch et al., 1980; Singh et al., 1986). Moreover, another set of studies has revealed either no significant results (Kelly & Amburgey, 1991; Laursen & Salter, 2006) or mixed relationships (Jansen et al., 2006; Smith & Grimm, 1987). These inconsistent findings suggest that the literature on this relationship may need to take a different approach in order to better understand the effects of strategic novelty on firm performance.
In addition, when considering the performance implications of strategic novelty, an important paradox arises. On one side, researchers have maintained that strategic deviations from industry norms are the path to obtaining competitive advantages and higher performance (e.g., Porter, 1980). However, some scholars have argued that conforming to industry norms has important advantages, as firms tend to converge upon superior practices that are selected by efficient market forces (Alchian, 1950; Hirshleiffer, 1985). Thus, firms conforming to industry norms generally have positive returns, while firms that deviate from industry norms incur costs and inefficiencies stemming from their experimentation.

Generally speaking, most firms are unwilling to conduct strategic choices for which a payoff is not guaranteed. Thus, strategic novelty results from a management team’s creative and innovative decision-making style (Wiersema & Bantel, 1992). The inherent complexity and uncertainty embedded in the strategic change process can put considerable demand on a firm’s management teams, resulting in a high level of risk for the firm’s operational performance (Kaplan & Norton, 2006; Wiersema & Bantel, 1992).

It has been an axiom of agency theory that shareholders favor risky investments more than managers (Eisenhardt, 1989), and agency theorists argue that large returns cannot be obtained without taking bigger risks (Core et al., 2003). However, the concept of risk-taking has been generally ambiguous when these theorists say shareholders want managers to take risky investments. In the previous literature, the definition of risk-taking has been abstract and all-encompassing. For instance, Wright et al. (1996) defined the risk-taking as “the analysis and selection of projects that have varying uncertainties associated with their expected outcomes” (p.442). Bloom and Milkovich (1998)
considered risk to be “uncertainty about outcomes or events” (p.285). So what does uncertainty mean? Because there are some degrees of uncertainty in almost any managerial action, such a definition of risk leaves us still puzzled.

While prior researchers have not considered risk as a composite measure, some researchers made a step toward treating risk as a multidimensional construct. For example, March and Shapira (1987) and Shapira (1995) suggested that risk can be calculated independently of the likelihood of outcomes and its value. Sanders and Hambrick (2007) also conceptualized risk-taking into three distinct dimensions: the size of investment; variance of possible outcomes; and the likelihood of extreme loss. Among the risk dimensions suggested by Sanders and Hambrick, this dissertation focuses on the variance of possible outcomes, which is performance extremeness and volatility.

On balance, the main effect of strategic novelty (i.e., strategic change and disconformity) on firm performance is unclear. However, some of the previous research suggests that environmental conditions matter in this relationship. Specifically, under greater environmental uncertainty, the benefits of strategic conformity are more likely to be strengthened. Environmental uncertainty increases ambiguity in the means-ends linkage and difficulty in assessing the viability of firms (Meyer & Rowan, 1977). Thus, by conforming to accepted strategic actions in the industry, firms could avoid elevated risks and costs more than the firms which deviate. Similarly, Henderson (1996) found that computer firms with strategies that conform to industry standards survived disruptive events and enhanced their sales growth.

In a reconciliation of this performance paradox, I propose to consider the environmental characteristics of the restaurant industry. The restaurant sector, as part of
the hospitality industry, has been known for its high volatility to economic conditions due to its heavy reliance on consumers’ disposable income (Lee & Ha, 2012). Also, due to a low level of entry barrier compared to other industries, restaurant firms are operated in a highly competitive and dynamic business environment (Guillet & Mattila, 2010). In estimating managerial discretion among industries, Finkelstein et al. (2009) also considered the restaurant industry as a highly uncertain environment due to its high product differentiability, high market growth, and demand instability.

Therefore, with this rationale, I expect that restaurant firms can achieve risk reduction in their performance when they stick to the status quo and conform to established industry norms. In other words, restaurant firms’ strategic novelty would increase their risks (i.e., performance extremeness and volatility).

*Hypothesis 6: Strategic novelty is positively associated with firm performance.*

*Hypothesis 6a: Strategic novelty is positively associated with performance extremeness.*

*Hypothesis 6b: Strategic novelty is positively associated with performance volatility.*

2.5 Summary of Hypotheses

**Study 1: How Generalist CEOs Shape Strategic Novelty**

*Hypothesis 1: Firms with generalist CEOs are positively associated with strategic novelty.*

- *Hypothesis 1a: Firms with generalist CEOs are positively associated with strategic change.*
• **Hypothesis 1b:** Firms with generalist CEOs are positively associated with strategic disconformity.

**Hypothesis 2:** Firms with generalist CEOs are positively associated with social novelty.

• **Hypothesis 2a:** Firms with generalist CEOs are positively associated with TMT heterogeneity (age, tenure, and gender).

• **Hypothesis 2b:** Firms with generalist CEOs are positively associated with TMT member change.

**Hypothesis 3:** A social novelty in TMT will be positively associated with a firm’s strategic novelty.

• **Hypothesis 3a:** TMT age heterogeneity will be positively associated with a firm’s strategic novelty.

• **Hypothesis 3b:** TMT tenure heterogeneity will be positively associated with a firm’s strategic novelty.

• **Hypothesis 3c:** TMT gender heterogeneity will be positively associated with a firm’s strategic novelty.

• **Hypothesis 3d:** TMT member change will be positively associated with a firm’s strategic novelty.

**Hypothesis 4:** The positive relationship between generalist CEO and strategic novelty is mediated by social novelty (age, tenure, gender, and TMT member change).

• **Hypothesis 4a:** The positive relationship between generalist CEO and strategic novelty is mediated by TMT age heterogeneity.
Hypothesis 4b: The positive relationship between generalist CEO and strategic novelty is mediated by TMT tenure heterogeneity.

Hypothesis 4c: The positive relationship between generalist CEO and strategic novelty is mediated by TMT gender heterogeneity.

Hypothesis 4d: The positive relationship between generalist CEO and strategic novelty is mediated by TMT member change.

Hypothesis 5: The positive relationship between generalist CEO and social novelty is moderated by CEO power.

Hypothesis 5a: The positive relationship between generalist CEO and TMT age heterogeneity is moderated by CEO power.

Hypothesis 5b: The positive relationship between generalist CEO and TMT tenure heterogeneity is moderated by CEO power.

Hypothesis 5c: The positive relationship between generalist CEO and TMT gender heterogeneity is moderated by CEO power.

Hypothesis 5d: The positive relationship between generalist CEO and TMT member change is moderated by CEO power.

Study 2: How Strategic Novelty Affects Performance Extremeness and Volatility

Hypothesis 6: Strategic novelty is positively associated with firm performance.

Hypothesis 6a: Strategic novelty is positively associated with performance extremeness.

Hypothesis 6b: Strategic novelty is positively associated with performance volatility

2.6 Overview of Research Model
Figure 1. Research Model of Study 1

Figure 2. Research Model of Study 2
CHAPTER 3

METHODOLOGY

In this chapter, methodologies used for the dissertation are described. Specifically, three sets of panel regressions are conducted: (1) the mediation effects of generalist CEOs on strategic novelty (Hypotheses 1, 2, 3, and 4); (2) the moderating effect of CEO power on the relationship between generalist CEOs and social novelty (Hypothesis 5); and (3) the effect of strategic novelty on firm performance (Hypothesis 6). This chapter discusses the data and sample, measurement of variables, and analysis of each study.

3.1 Study 1: How Generalist CEOs Shape Strategic Novelty

3.1.1 Sample and Data

The sample of this study comprises U.S. publicly traded restaurant firms based on the North American Industry Classification System (NAICS). Specifically, the sample includes Limited-Service Restaurants (722513), Full-Service Restaurants (722511). The initial list of these sample firms is derived from the COMPUSTAT and EXECUCOMP databases. The sample period ranges from 1992 to 2017, as the EXECUCOMP database started to offer the data from 1992.

CEOs in a specific year are identified using the EXECUCOMP database. Data on CEOs’ demographic information and compensation are also collected from EXECUCOMP and a firm’s proxy statement. Information on the experiences and characteristics of CEOs are acquired from each firm’s 10-K reports, BoardEx database,
Bloomberg, and other publicly available resources, such as online profiles and the website LinkedIn, among others.

Additionally, data on firms’ financial information (e.g., strategic change, strategic disconformity, internationalization, and franchising) and control variables are collected from COMPUSTAT database of Wharton Research Data Services (WRDS) and firms’ annual reports (10-K) filed with the U.S. Securities and Exchange Commission (SEC).

3.1.2 Variables

**Generalist CEOs.** To operationalize the generality of the CEO’s human capital, Custódio et al. (2013) and Crossland et al. (2014) created an index of career variety using CEOs’ lifetime work experience prior to their current CEO position. This index captures the CEOs’ skills that can be transferrable across different firms and industries. Following Custódio et al.’s (2013) index, I considered five proxies of the CEO’s human capital:

1) Past number of positions that CEOs have previously had. A CEO with diverse positions has been exposed to various functional areas, such as positions in production, finance, human resources, sales and marketing.

2) Past number of firms where a CEO previously worked. A CEO who worked for many firms may have more generic skills than firm-specific skills.

3) Past number of industries in which a CEO worked. Using the four-digit SIC code, a CEO who worked in many different industries has been exposed to different business environments.
4) A dummy variable that equals 1 if a CEO has been a CEO at another firm or firms. Generally, a CEO is required to have a set of general skills to manage different organizational environments and areas.

5) Past conglomerate experience. A dummy variable that equals 1 if a CEO has worked for a conglomerate. A CEO with conglomerate experience is considered to have been exposed to a more complex organization.

To calculate the index, all five dimensions are totaled and divided by the number of years the person had worked prior to being a CEO in the current firm (Crossland et al., 2014).

**Strategic novelty.** Crossland et al. (2014) considered strategic change and disconformity as forms of strategic novelty. In addition, considering the unique strategies and characteristics in the restaurant industry, I considered two more components as strategic novelty: internationalization and franchising strategy.

**Internationalization.** To measure internationalization, the Berry-Herfindahl index is used. This index considers the number of a firm’s units in each country using the following equation:

\[
\text{Berry-Herfindahl index} = 1 - \sum S_i^2
\]

Where \( S_i \) represents the number of properties for each firm’s international market divided by a firm’s total number of properties.

The Berry-Herfindahl index has been widely used to operationalize market concentration and diversification research (e.g., Kang & Lee, 2014; Nachum, 2004). An
index value of 1 indicates that a firm invests in many different countries, while a lower index value indicates that a firm invests in a relatively small number of countries.

**Franchising.** Franchising has been widely used as a restaurant firm’s expansion strategy due to the benefits from its risk-sharing role (Combs & Castrogiovanni, 1994). Thus, this dissertation views a restaurant firm with less uses of franchising as a firm taking a strategic novelty. The degree of franchising is measured as a firm’s number of franchised units divided by the total number of units (Combs & Castrogiovanni, 1994). Then, this degree of franchising is subtracted from 1.

**Strategic change.** Following previous studies (Crossland et al., 2013; Geletkanycz & Hambrick, 1997; Wierema & Bantel, 1992), I operationalized strategic change as the yearly change in five strategic choices. (1) advertising intensity estimated by advertising expenditure over sales; (2) R&D intensity estimated by R&D expenditure over sales; (3) overhead efficiency calculated by selling, general, and administrative expenses over sales; (4) capital intensity calculated by capital expenditure over sales; and (5) firm leverage calculated by sum of debt in current liabilities and long-term debt divided by total assets. In addition, I included two corporate strategies: (6) internationalization and (7) franchising. The details of these two measurements are provided above.

For each of the strategic change variables, the absolute difference from the prior year to the focal year was calculated and log transformed. Then, the variables were standardized and added together to create a single index of strategic change for each year.

**Strategic disconformity.** To measure annual strategic disconformity, I used the same seven strategic choice variables discussed for strategic change. For each year, the
absolute difference between a firm’s score and the industry mean is calculated and then standardized (Geletkanycz & Hambrick, 1997; Tang et al., 2011). Each standardized dimension is then log-transformed and added together to create an overall strategic disconformity index for each year.

**Social novelty.** I defined a firm’s TMT in each year as all senior executives identified in a firm’s 10-K report (Gordon et al., 2000). In the operationalization of social novelty, two variables are considered: (1) TMT membership change and (2) TMT heterogeneity (Crossland et al., 2014).

*TMT membership change* is measured as the annual sum of additions to and deletions from the TMT, divided by the total number of members in the previous year. For *TMT heterogeneity*, I created multiple aspects of diversity following the previous research (e.g., Carpenter, 2002; Tihanyi et al., 2000), including age, tenure, and gender. Age and tenure diversity are estimated as the coefficient of variation (= standard deviation ÷ mean ×100). Tenure is coded as the number of years that a top manager had been a member of the firm. Gender is coded as a dummy variable that equals 1 if a member is male. I operationalized annual TMT gender heterogeneity using the Berry-Herfindahl index \(1 − \sum H_i^2\), where \(H_i\) is the proportion of the TMT in the \(i\)th category. The higher index score, the greater diversity a TMT has.

**CEO power.** As a moderating variable, CEO power was measured as CEO power relative to the board ownership, following Chin and Hambrick’s (2013) study. Specifically, Chin and Hambrick (2013) estimated a formative index consisting of three variables: a dummy variable for *CEO duality* (1 if the CEO serves also as board chair); the *CEO’s relative ownership* (the difference between the percentages of stock owned by
the CEO and percentages owned by outside directors); and the proportion of outside board members appointed after the CEO. To calculate the power index, these three variables were standardized and averaged.

**Control variables.** As suggested by Crossland et al. (2014), pre-entry condition is controlled. That is, the value of strategic novelty in the year immediately prior to the first observation for a particular CEO is included as a control variable.

At the CEO level, I control for CEO age, the number of years of post-high school education, and total years of work experience. A CEO’s incentive compensation is controlled, and estimated by stock option pay divided by total compensation. To eliminate any bias, the stock option pay is averaged across three years because a new CEO usually receives a large amount of stock options in their first year. A CEO’s tenure is controlled and estimated by the number of years that a CEO served in a focal firm.

At the firm level, I control for firm age (years of a firm’s operation), firm size (log of total assets), firm leverage (sum of debt in current liabilities and long-term debt divided by total assets), capital intensity (fixed assets divided by total assets), liquidity (the sum of cash, marketable securities, and accounts receivable divided by current liability), and profitability (the sum of net income, interest expense, and income tax divided by total sales). All firm-level control variables are lagged by one year.

Table 3-1.

Summary of Main Variables in Study 1
| Generalist CEOs | General ability index | Past number of positions that CEOs have previously had ($X_1$); past number of firms that a CEO previously worked ($X_2$); past number of industries in which a CEO worked ($X_3$); a dummy variable of past CEO experience ($X_4$); a dummy variable of past conglomerate experience ($X_5$)  
* All five dimensions are totaled and divided by the number of years the person had worked prior to being a CEO. |
<table>
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<tr>
<td>Strategic novelty</td>
<td>Strategic change</td>
<td>The sum of yearly change in the strategic spending of a firm: (1) advertising intensity; (2) R&amp;D intensity; (3) overhead efficiency; (4) capital intensity; (5) firm leverage; (6) internationalization; and (7) franchising</td>
</tr>
<tr>
<td></td>
<td>Strategic disconformity</td>
<td>The sum of the differences between the strategic spending of a firm and industry means: (1) advertising intensity; (2) R&amp;D intensity; (3) overhead efficiency; (4) capital intensity; (5) firm leverage; (6) internationalization; and (7) franchising</td>
</tr>
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| | Internationalization | Berry-Herfindahl index = $1 - \sum S_i^2$  
where $S_i$ represents the number of properties for each firm’s international market divided by a firm’s total number of properties |
| | Inverse measure of franchising | $1 - \left( \frac{\text{A firm’s number of franchised units}}{\text{the total number of units}} \right)$ |
| Social novelty | Age heterogeneity | The coefficient of variation = standard deviation $\div$ mean $\times 100$ |
| | Tenure heterogeneity | The coefficient of variation = standard deviation $\div$ mean $\times 100$ |
| | Gender heterogeneity | Berry-Herfindahl index = $1 - \sum H_i^2$  
where $H_i$ is the proportion of the TMT in the $i$th category  
The higher index score, the greater diversity a TMT has. |
| | TMT member change | the annual sum of additions and deletions to the TMT $\div$ the total number of members in the previous year |
| CEO Power | CEO duality | 1 if the CEO serves also as board chair, otherwise 0 |
| | CEO’s relative ownership | The difference between the percentages of stock owned by the CEO and the percentages owned by outside directors |
3.1.3 Analysis Model of Study 1

**Figure 3.** Study 1: How Generalist CEOs Shape Strategic Novelty

For Hypothesis 1a & 1b

\[
Strategic \ Change_{it} = \beta_0 + \beta_1 \text{Generalist CEOs}_{it-1} + \beta_{2-10} \text{Controls}_{it-1} + \epsilon_{it}
\]

\[
\text{Strategic disconformity}_{it} = \beta_0 + \beta_1 \text{Generalist CEOs}_{it-1} + \beta_{2-10} \text{Controls}_{it-1} + \epsilon_{it}
\]

For Hypothesis 2a & 2b:

\[
\text{TMT heterogeneity (age, tenure, gender)}_{it} = \beta_0 + \beta_1 \text{Generalist CEOs}_{it-1} + \beta_{2-10} \text{Controls}_{it-1} + \epsilon_{it}
\]

\[
\text{TMT member change}_{it} = \beta_0 + \beta_1 \text{Generalist CEOs}_{it-1} + \beta_{2-10} \text{Controls}_{it-1} + \epsilon_{it}
\]
For Hypothesis 3a, 3b, 3c, & 3d:

Strategic novelty\(_{it}\) = \(\beta_0 + \beta_1\text{Age heterogeneity}_{jt-1} + \beta_2\text{Controls}_{it-1} + \epsilon_{it}\)

Strategic novelty\(_{it}\) = \(\beta_0 + \beta_1\text{Tenure heterogeneity}_{jt-1} + \beta_2\text{Controls}_{it-1} + \epsilon_{it}\)

Strategic novelty\(_{it}\) = \(\beta_0 + \beta_1\text{Gender heterogeneity}_{jt-1} + \beta_2\text{Controls}_{it-1} + \epsilon_{it}\)

Strategic novelty\(_{it}\) = \(\beta_0 + \beta_1\text{TMT member change}_{jt-1} + \beta_2\text{Controls}_{it-1} + \epsilon_{it}\)

For Hypothesis 5a, 5b, 5c, & 5d:

Age heterogeneity\(_{it}\) = \(\beta_0 + \beta_1\text{Generalist CEOs}_{jt-1} + \beta_2\text{Power}_{jt-1} + \beta_3\text{Generalist CEOs} \times \text{Power}_{jt-1} + \beta_4\text{Controls}_{it-1} + \epsilon_{it}\)

Tenure heterogeneity\(_{it}\) = \(\beta_0 + \beta_1\text{Generalist CEOs}_{jt-1} + \beta_2\text{Power}_{jt-1} + \beta_3\text{Generalist CEOs} \times \text{Power}_{jt-1} + \beta_4\text{Controls}_{it-1} + \epsilon_{it}\)

Gender heterogeneity\(_{it}\) = \(\beta_0 + \beta_1\text{Generalist CEOs}_{jt-1} + \beta_2\text{Power}_{jt-1} + \beta_3\text{Generalist CEOs} \times \text{Power}_{jt-1} + \beta_4\text{Controls}_{it-1} + \epsilon_{it}\)

TMT member change\(_{it}\) = \(\beta_0 + \beta_0 + \beta_1\text{Generalist CEOs}_{jt-1} + \beta_2\text{Power}_{jt-1} + \beta_3\text{Generalist CEOs} \times \text{Power}_{jt-1} + \beta_4\text{Controls}_{it-1} + \epsilon_{it}\)

3.1.4 Econometric Estimation

To examine the hypotheses, a longitudinal multilevel analysis was employed. Since the data is composed of three nested dimensions (CEOs, firms, and year), the pooled ordinary least squares (OLS) estimation is not efficient and consistent to control unobserved effects from these dimensions (Wooldridge, 2010). Thus, among various methods suggested for analyzing panel data, general estimating equation (GEE) modeling was used, using the \texttt{xtgee} procedure in STATA.
GEE derives maximum likelihood estimates and accommodates non-independent observations and is suitable when using panel data sets (Liang & Zeger, 1986). It focuses on the average changes in response over time and the impact of explanatory variables on these changes. Since GEE does not require the outcome variable to have a particular distribution, it can benefit studies in which the distribution of data is difficult to verify due to skewed sample size and data (Naseri et al., 2016). Also, GEE provides a consistent parameter and standard error estimates even if they do not pick the correct correlation structure.

GEE is widely used by researchers in strategic management, especially upper echelons theorists, because it can effectively account for unobserved differences among CEOs as well as intertemporal correlations among outcome variables for individual CEOs, and using a fixed-effects model is inappropriate when the regression model includes time-invariant variables (Chatterjee & Hambrick, 2011; Chin et al., 2013; Wowak et al., 2011).

Furthermore, the study used robust standard errors by firm to correct for autoregressive disturbances within clusters in the data (Peterson, 2009).

3.2 Study 2: How Strategic Novelty Affects Performance Extremeness and Volatility

3.2.1 Sample and Data

As with Study 1, U.S. publicly traded restaurant firms based on the North American Industry Classification System (NAICS) are used as a sample of Study 2. Specifically, the sample includes Limited-Service Restaurants (722513), Full-Service Restaurants (722511). The initial list of these sample firms is derived from the
COMPUSTAT and EXECUCOMP databases. The sample period ranges from 1992 to 2018, as the EXECUCOMP database started to offer the data from 1992. The EXECUCOMP database is used to identify a CEO and TMT members for each firm in a specific year and to collect executives’ demographic information and compensation.

Firms’ financial information and control variables are collected from COMPUSTAT database of Wharton Research Data Services (WRDS) and firms’ annual reports (10-K) filed with the U.S. Securities and Exchange Commission (SEC).

3.2.2 Variables

Generalist CEOs. The operationalization of generalist CEOs is the same as in Study 1, following the study of Custódio et al. (2013). Five dimensions are considered and measured to estimate the index of generalist CEOs: past number of positions that CEOs have previously had \( (X_1) \); past number of firms where a CEO previously worked \( (X_2) \); past number of industries in which a CEO worked \( (X_3) \); a dummy variable of past CEO experience \( (X_4) \); and a dummy variable of past conglomerate experience \( (X_5) \).

Firm performance. Firm performance is measured in two ways. Following Sanders and Hambrick’s (2007) study, \( (1) \) Performance extremeness was assessed by two estimates: total shareholder returns (TSR) and return on assets (ROA). TSR, a stock market performance, was estimated by subtracting the year-end stock price from the year-start stock price, adding dividends paid, and then dividing by the year-start stock price. ROA, an accounting performance, was measured as net income divided by total assets. To calculate performance extremeness, a predicted performance was estimated by regressing the performance on all control variables. Then, the absolute value of residuals
from the regression (i.e., the difference between a predicted performance and an actual performance) were used to indicate the degree to which a firm’s actual performance deviated from reasonable expectations of their performance. Second, (2) *performance volatility* was measured by a standard deviation of TSR and ROA averaged across a three-year period (Kim et al., 1993; Song et al., 2017).

**Control variables.** In Study 2, the same control variables are included as in Study 1. At a CEO level, I control for *CEO age*, the number of years of post-high school education, and total years of work experience. *A CEO’s incentive compensation* is controlled and estimated by stock option pay divided by the total compensation. To eliminate any bias, the stock option pay is averaged by three years because a new CEO usually receives a large amount of stock options in their first year. *A CEO’s tenure* is controlled and estimated by the number of years that a CEO served in a focal firm.

At a firm level, I control for *firm age* (years of a firm’s operation), *firm size* (log of total assets), *firm leverage* (sum of debt in current liabilities and long-term debt divided by total assets), *capital intensity* (fixed assets divided by total assets), *liquidity* (the sum of cash, marketable securities, and accounts receivable divided by current liability), and *profitability* (the sum of net income, interest expense, and income tax divided by total sales). All firm-level control variables are lagged by one year.

Table 3-2.

**Summary of Main Variables in Study 2**

<table>
<thead>
<tr>
<th>Firm performance</th>
<th>Performance extremeness</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSR = (year-start stock price – year-end stock price + dividends)/ year-start stock price</td>
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<tr>
<td>ROA = net income / total assets</td>
<td></td>
</tr>
<tr>
<td>TSR(ROA)<em>{it} = \beta_0 + \beta_1\text{Controls}</em>{it-1} + \varepsilon_{it-1}</td>
<td></td>
</tr>
<tr>
<td>where the absolute value of residuals from the regression (</td>
<td>\varepsilon_{it-1}</td>
</tr>
</tbody>
</table>
### Performance volatility

A standard deviation of TSR and ROA averaged across a three-year period.

### Strategic change

The sum of yearly change in strategic spending of a firm: (1) advertising intensity; (2) R&D intensity; (3) overhead efficiency; (4) capital intensity; (5) firm leverage; (6) internationalization; and (7) franchising.

### Strategic disconformity

The sum of differences between strategic spending of a firm and industry means: (1) advertising intensity; (2) R&D intensity; (3) overhead efficiency; (4) capital intensity; (5) firm leverage; (6) internationalization; and (7) franchising.

### Internationalization

Berry-Herfindahl index = \( 1 - \sum S_i^2 \)

where \( S_i \) represents the number of properties for each firm’s international market divided by a firm’s total number of properties.

### Inverse measure of franchising

\( 1 - \left( \frac{\text{A firm’s number of franchised units}}{\text{the total number of units}} \right) \)

### 3.2.3 Analysis Model of Study 2

**Figure 4.** Study 2: How Strategic Novelty Affects Performance Extremeness and Volatility

*For Hypothesis 6a & 6b:*

\[
\text{Performance extremeness}_{it} = \alpha_0 + \alpha_1 \text{Strategic change}_{jt-1} + \alpha_2 \text{Controls}_{it-1} + \epsilon_{it}
\]

\[
\text{Performance volatility}_{it} = \alpha_0 + \alpha_1 \text{Strategic disconformity}_{jt-1} + \alpha_2 \text{Controls}_{it-1} + \epsilon_{it}
\]

### 3.2.4 Econometric Estimation
Similar to Study 1, the data of Study 2 consists of multiple unbalanced panels of observations. Thus, among several models appropriate for examining panel data, I used the general estimating equation (GEE) modeling due to the benefits it offers, such as creating consistent estimates and standard errors regardless of correlation structure (Naseri et al., 2016). Furthermore, the study used robust standard errors by firm to correct for autoregressive disturbances within clusters in the data (Peterson, 2009).
CHAPTER 4

RESULT

This chapter describes the results of analyses for each study. The structure and descriptive statistics are presented and followed by the main results to show statistical evidence for testing hypotheses.

4.1 Study 1: How Generalist CEOs Shape Strategic Novelty

4.1.1 Sample Structure and Descriptive Statistics

The initial sample size of Study 1 had 1,493 CEO-year observations identified by the NAICS over the period from 1992 to 2018. Out of 1,493 observations, some observations with missing values were removed depending on the testing models. Also, I removed some outliers using the criteria of an absolute value of a studentized residual of 4 (Younger, 1979) for further analysis. Consequently, the final sample size for each analysis ranges from 313 to 345.

Table 4-1 shows the mean and standard deviation of variables in Study 1. The mean value of generalist CEOs was 0.51, with the standard deviation of 0.51. This implies that the restaurant industry has, on average, more generalist CEOs compared to the average of 0.25 for Fortune 250 firms in Crossland et al.’s (2014) study. The mean value of age heterogeneity in TMT was 12.98, with a standard deviation of 5.62. The mean value of tenure heterogeneity in TMT was 40.44, with a standard deviation of 21.27. Compared to that of Fortune 250 firms (Crossland et al., 2014), it reveals that restaurant firms have a relatively high degree of diversity in age but a relatively low
degree of diversity in tenure. The mean value of gender heterogeneity is 0.14, with a standard deviation of 0.16, which implies that there are generally more male top executives of restaurant firms than females. The mean value of TMT member change was 0.30, with a standard deviation of 0.29.

The mean value of strategic change was -0.83, with a standard deviation of 2.82, and the mean value of strategic disconformity was -6.45, with a standard deviation of 1.92. More importantly, the mean value of the degree of franchising was 0.64, with a standard deviation of 0.33, and the mean value of internationalization was 0.92, with a standard deviation of 0.14. This implies that restaurant firms heavily implement the franchising strategy and their international expansion is generally well-dispersed into different countries.

Lastly, the mean value of CEO power was 0.00, with a standard deviation of 0.57. Specifically, the mean value of CEO duality was 0.67, with a standard deviation of 0.47; the mean value of CEO’s relative stock ownership was 1.86, with a standard deviation of 9.80; and the proportion of outside directors appointed after the CEO was 0.56, with a standard deviation of 0.28. This indicates that many CEOs in the restaurant industry are generally on dual positions and have more stocks than outside directors.
Table 4-1

Descriptive Statistics of Study 1

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<tr>
<th>Variables</th>
<th>Obs</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
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</thead>
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<td>Generalist CEOs</td>
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<td>6.04</td>
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<td>0.57</td>
<td>-0.88</td>
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<td>0.56</td>
<td>0.28</td>
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</table>
4.1.2 Preliminary Analysis

Table 4-2 shows the results of Pearson correlations among variables in Study 1. According to the result, there are no extremely high correlations and, therefore, no severe multicollinearity issue. Moreover, to examine the moderating effect of CEO power, the models with interaction terms are subject to a high multicollinearity, especially between first-order variables (CEO power and generalist CEOs) and an interaction term. To avoid this issue, CEO power and generalist CEOs variables were mean-centered.

As can be seen in Table 4-2, generalist CEOs are negatively and significantly associated with tenure heterogeneity ($\rho=-0.26$). Tenure heterogeneity and TMT member change are also negatively and significantly associated with strategic disconformity ($\rho=-0.22$ and $-0.21$ respectively). Age heterogeneity is positively and significantly associated with strategic disconformity ($\rho=0.20$). Thus, the bivariate correlations show some inconsistent results with the hypotheses in Study 1.
Table 4-2

Pearson’s Correlations of Study 1

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<td>(1) TMT</td>
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<td>(2) Gender</td>
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<td>(3) Tenure</td>
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<td>(4) Age</td>
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<td>-0.11*</td>
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<td>(5) Generalist</td>
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<td>0.03</td>
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<td>-0.26***</td>
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<tr>
<td>(6) CEO power</td>
<td>0.05</td>
<td>-0.03</td>
<td>0.07</td>
<td>-0.13*</td>
<td>0.04</td>
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<tr>
<td>(7) Firm size</td>
<td>-0.06</td>
<td>-0.43***</td>
<td>0.18***</td>
<td>-0.01</td>
<td>0.13*</td>
<td>-0.42***</td>
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<td>0.08</td>
<td>0.20***</td>
<td>-0.02</td>
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<td>0.23***</td>
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<td>(10) Liquidity</td>
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<td>0.04</td>
<td>-0.08</td>
<td>0.17**</td>
<td>-0.13*</td>
</tr>
<tr>
<td>option</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

†, *, **, and *** represent 10%, 5%, 1%, and less than 0.1% significance level, respectively.
4.1.3 Main Analyses: Testing Hypotheses

The results of general estimating equation (GEE) modeling for testing Hypothesis 1 are presented in Table 4-3. Holding control variables constant, the columns of H1a and H1b show the effect of generalist CEOs on strategic change and strategic disconformity. Both models show a positive and significant coefficient for generalist CEOs ($\beta = 0.862$, $p < 0.05$ in Model H1a, and $\beta = 1.604$, $p < 0.05$ in Model H1b). Thus, Hypothesis 1 for the positive effect of generalist CEOs on strategic novelty is supported.

Table 4-4 shows the results for testing Hypothesis 2, which concerns the effect of generalist CEOs on social novelty. Specifically, Models H2a-(a), 2a-(2), and 2a-(3) present the effect of generalist CEOs on TMT heterogeneity. In Models H2a-(1) and H2a-(2), the coefficient of generalist CEOs is negative but statistically not significant for age and tenure heterogeneity ($\beta = -1.572$ and -14.929, respectively, $p > 0.10$). However, in Model H2a-(3), the coefficient of generalist CEOs is positive and significant for gender heterogeneity ($\beta = 0.209$, $p < 0.05$). Therefore, Hypothesis 2a for the positive effect of generalist CEOs on TMT heterogeneity is partially supported.

In addition, Model H2b shows the effect of generalist CEOs on TMT member change. The coefficient of generalist CEOs in Model H2b is positive and significant ($\beta = 0.248$, $p < 0.05$). Thus, Hypothesis 2b for the positive effect of generalist CEOs on TMT member change is supported.
Table 4-3

*Test Results of Hypothesis 1 (The Effect of Generalist CEOs on Strategic Novelty)*

<table>
<thead>
<tr>
<th></th>
<th>H1a Strategic Change</th>
<th></th>
<th>H1b Strategic Disconformity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-1.457</td>
<td>(2.067)</td>
<td>-7.394</td>
<td>(6.330)</td>
</tr>
<tr>
<td>Firm size</td>
<td>-0.464**</td>
<td>(0.181)</td>
<td>-1.107***</td>
<td>(0.304)</td>
</tr>
<tr>
<td>Leverage</td>
<td>1.382***</td>
<td>(0.222)</td>
<td>1.284***</td>
<td>(0.304)</td>
</tr>
<tr>
<td>Capital intensity</td>
<td>2.406***</td>
<td>(0.500)</td>
<td>4.085***</td>
<td>(1.038)</td>
</tr>
<tr>
<td>Liquidity</td>
<td>0.398**</td>
<td>(0.159)</td>
<td>1.133***</td>
<td>(0.323)</td>
</tr>
<tr>
<td>Profitability</td>
<td>0.310</td>
<td>(0.837)</td>
<td>-2.950†</td>
<td>(1.553)</td>
</tr>
<tr>
<td>Firm age</td>
<td>-0.041</td>
<td>(0.359)</td>
<td>1.003</td>
<td>(0.612)</td>
</tr>
<tr>
<td>CEO tenure</td>
<td>0.029***</td>
<td>(0.011)</td>
<td>0.038</td>
<td>(0.026)</td>
</tr>
<tr>
<td>CEO age</td>
<td>-0.873</td>
<td>(1.330)</td>
<td>-1.237</td>
<td>(3.220)</td>
</tr>
<tr>
<td>CEO stock option</td>
<td>-0.011</td>
<td>(0.144)</td>
<td>1.382*</td>
<td>(0.627)</td>
</tr>
<tr>
<td>Generalist CEO</td>
<td><strong>0.862</strong>*</td>
<td>(0.390)</td>
<td><strong>1.604</strong>*</td>
<td>(0.801)</td>
</tr>
<tr>
<td>Wald Chi²</td>
<td>76.21***</td>
<td></td>
<td>178.33***</td>
<td></td>
</tr>
<tr>
<td>Year effects</td>
<td>Yes</td>
<td></td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Obs.</td>
<td>320</td>
<td></td>
<td>313</td>
<td></td>
</tr>
<tr>
<td>No. of Cluster</td>
<td>55</td>
<td></td>
<td>55</td>
<td></td>
</tr>
</tbody>
</table>

†, *, **, and *** represent 10%, 5%, 1%, and less than 0.1% significance level, respectively.
( ) contains robust standard errors.
Table 4-4

Test Results of Hypothesis 2 (The Effect of Generalist CEOs on Social Novelty)

<table>
<thead>
<tr>
<th></th>
<th>H2a-(1) Age heterogeneity</th>
<th>H2a-(2) Tenure heterogeneity</th>
<th>H2a-(3) Gender heterogeneity</th>
<th>H2b TMT member change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-27.760*</td>
<td>(11.627)</td>
<td>-53.425*</td>
<td>(24.323)</td>
</tr>
<tr>
<td>Firm size</td>
<td>-4.628***</td>
<td>(1.123)</td>
<td>-4.576</td>
<td>(3.922)</td>
</tr>
<tr>
<td>Leverage</td>
<td>-1.615</td>
<td>(1.267)</td>
<td>-8.819†</td>
<td>(4.533)</td>
</tr>
<tr>
<td>Capital intensity</td>
<td>6.838*</td>
<td>(2.863)</td>
<td>-56.000***</td>
<td>(12.032)</td>
</tr>
<tr>
<td>Liquidity</td>
<td>2.175***</td>
<td>(0.586)</td>
<td>-2.656†</td>
<td>(1.477)</td>
</tr>
<tr>
<td>Profitability</td>
<td>7.792*</td>
<td>(3.181)</td>
<td>-42.478**</td>
<td>(16.360)</td>
</tr>
<tr>
<td>Firm age</td>
<td>-1.751</td>
<td>(2.778)</td>
<td>2.738</td>
<td>(8.286)</td>
</tr>
<tr>
<td>CEO tenure</td>
<td>-0.064</td>
<td>(0.060)</td>
<td>-0.478†</td>
<td>(0.259)</td>
</tr>
<tr>
<td>CEO age</td>
<td>30.055***</td>
<td>(8.539)</td>
<td>96.428***</td>
<td>(12.855)</td>
</tr>
<tr>
<td>CEO stock option</td>
<td>-0.221</td>
<td>(0.776)</td>
<td>-0.722</td>
<td>(2.488)</td>
</tr>
<tr>
<td>Generalist CEOs</td>
<td>-1.572</td>
<td>(2.325)</td>
<td>-14.929</td>
<td>(9.277)</td>
</tr>
</tbody>
</table>

Wald Chi²  | 95.91*** | 81.67*** | 214.12*** | 699.88*** |
Year effects | Yes | Yes | Yes | Yes |
Obs.       | 341 | 341 | 341 | 334 |
No. of Cluster | 57 | 57 | 57 | 55 |

†, *, **, and *** represent 10%, 5%, 1%, and less than 0.1% significance level, respectively.
( ) contains robust standard errors.
Table 4-5 and Table 4-6 indicate the results for testing Hypothesis 3, which concerns the effect of social novelty on strategic novelty. Specifically, Table 4-5 shows the effect of age and tenure heterogeneity on strategic novelty. In Model H3a-(1) and H3a-(2), the coefficients of age heterogeneity are not significant ($\beta = 0.012, p > 0.10$ for strategic change and $\beta = -0.007, p > 0.10$ for strategic disconformity). Thus, Hypothesis 3a for the relationship between age heterogeneity and strategic novelty is not supported. In Model H3b-(1) and H3b-(2), the coefficients of tenure heterogeneity are not significant ($\beta = 0.000, p > 0.10$ for strategic change and $\beta = -0.006, p > 0.10$ for strategic disconformity). Thus, Hypothesis 3b for the relationship between tenure heterogeneity and strategic novelty is not supported.

Table 4-6 shows the effect of gender heterogeneity and TMT member change on strategic novelty. In Model H3c-(1), the coefficient of gender heterogeneity is negative and statistically significant for strategic change ($\beta = -0.935, p < 0.05$). On the other hand, in Model H3c-(2), the coefficient of gender heterogeneity is positive but statistically not significant for strategic disconformity ($\beta = 0.457, p > 0.10$). Therefore, Hypothesis 3c for the relationship between gender heterogeneity and strategic novelty is not supported and the opposite result is revealed. In Models H3d-(1) and H3d-(2), the coefficient of TMT member change is positive and statistically significant for strategic change ($\beta = 0.251, p < 0.05$), but it is negative but not significant for strategic disconformity ($\beta = -0.197, p > 0.10$). Therefore, Hypothesis 3d for the relationship between TMT member change on strategic novelty is partially supported.
Table 4-5

Test Results of Hypothesis 3a & 3b (The Effect of Age and Tenure Heterogeneity on Strategic Novelty)

<table>
<thead>
<tr>
<th></th>
<th>H3a-(1) Strategic change</th>
<th>H3a-(2) Strategic disconformity</th>
<th>H3b-(1) Strategic change</th>
<th>H3b-(2) Strategic disconformity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>0.365</td>
<td>(2.038)</td>
<td>6.657(^\dagger)</td>
<td>(3.707)</td>
</tr>
<tr>
<td>Firm size</td>
<td>-0.248</td>
<td>(0.307)</td>
<td>-1.678***</td>
<td>(0.351)</td>
</tr>
<tr>
<td>Leverage</td>
<td>-0.406**</td>
<td>(0.145)</td>
<td>-0.154</td>
<td>(0.431)</td>
</tr>
<tr>
<td>Capital intensity</td>
<td>-3.770***</td>
<td>(0.908)</td>
<td>2.270*</td>
<td>(0.996)</td>
</tr>
<tr>
<td>Liquidity</td>
<td>-1.416***</td>
<td>(0.347)</td>
<td>-0.053</td>
<td>(0.279)</td>
</tr>
<tr>
<td>Profitability</td>
<td>3.720*</td>
<td>(1.586)</td>
<td>1.053</td>
<td>(1.460)</td>
</tr>
<tr>
<td>Firm age</td>
<td>-0.152</td>
<td>(0.417)</td>
<td>1.382*</td>
<td>(0.609)</td>
</tr>
<tr>
<td>CEO tenure</td>
<td>0.020(^\dagger)</td>
<td>(0.011)</td>
<td>0.002</td>
<td>(0.019)</td>
</tr>
<tr>
<td>CEO age</td>
<td>0.965</td>
<td>(1.429)</td>
<td>-6.658**</td>
<td>(2.289)</td>
</tr>
<tr>
<td>CEO stock option</td>
<td>0.605*</td>
<td>(0.294)</td>
<td>-0.375</td>
<td>(0.268)</td>
</tr>
<tr>
<td>Age heterogeneity</td>
<td>0.012</td>
<td>(0.021)</td>
<td>-0.007</td>
<td>(0.016)</td>
</tr>
<tr>
<td>Tenure heterogeneity</td>
<td>0.000</td>
<td>(0.003)</td>
<td>-0.006</td>
<td>(0.004)</td>
</tr>
<tr>
<td>Wald Chi(^2)</td>
<td>40.75***</td>
<td>82.57***</td>
<td>41.76***</td>
<td>272.69***</td>
</tr>
<tr>
<td>Year effects</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Obs.</td>
<td>325</td>
<td>328</td>
<td>325</td>
<td>328</td>
</tr>
<tr>
<td>No. of Cluster</td>
<td>56</td>
<td>58</td>
<td>56</td>
<td>58</td>
</tr>
</tbody>
</table>

\(^\dagger\), *, **, and *** represent 10%, 5%, 1%, and less than 0.1% significance level, respectively.

( ) contains robust standard errors.
Table 4-6

Test Results of Hypothesis 3c & 3d (The Effect of Gender Heterogeneity and TMT Member Change on Strategic Novelty)

<table>
<thead>
<tr>
<th></th>
<th>H3c-(1) Strategic change</th>
<th>H3c-(2) Strategic disconformity</th>
<th>H3d-(1) Strategic change</th>
<th>H3d-(2) Strategic disconformity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>0.771</td>
<td>(2.261)</td>
<td>12.703***</td>
<td>(2.292)</td>
</tr>
<tr>
<td>Firm size</td>
<td>-0.489*</td>
<td>(0.202)</td>
<td>-1.506***</td>
<td>(0.276)</td>
</tr>
<tr>
<td>Leverage</td>
<td>0.488</td>
<td>(0.236)</td>
<td>0.305†</td>
<td>(0.178)</td>
</tr>
<tr>
<td>Capital intensity</td>
<td>-1.293*</td>
<td>(0.514)</td>
<td>1.557***</td>
<td>(0.404)</td>
</tr>
<tr>
<td>Liquidity</td>
<td>-0.505***</td>
<td>(0.135)</td>
<td>-0.694***</td>
<td>(0.080)</td>
</tr>
<tr>
<td>Profitability</td>
<td>0.646</td>
<td>(0.743)</td>
<td>-2.185</td>
<td>(1.335)</td>
</tr>
<tr>
<td>Firm age</td>
<td>0.150</td>
<td>(0.366)</td>
<td>1.914**</td>
<td>(0.669)</td>
</tr>
<tr>
<td>CEO tenure</td>
<td>0.018*</td>
<td>(0.009)</td>
<td>0.009</td>
<td>(0.014)</td>
</tr>
<tr>
<td>CEO age</td>
<td>0.027</td>
<td>(1.433)</td>
<td>-10.381***</td>
<td>(1.624)</td>
</tr>
<tr>
<td>CEO stock option</td>
<td>0.314</td>
<td>(0.200)</td>
<td>0.256</td>
<td>(0.316)</td>
</tr>
<tr>
<td>Gender heterogeneity</td>
<td>-0.935*</td>
<td>(0.385)</td>
<td>0.457</td>
<td>(0.464)</td>
</tr>
<tr>
<td>TMT member change</td>
<td></td>
<td></td>
<td>0.251</td>
<td>(0.129)</td>
</tr>
<tr>
<td>Wald Chi²</td>
<td>39.90***</td>
<td>3096.99***</td>
<td>57.25***</td>
<td>161.67***</td>
</tr>
<tr>
<td>Year effects</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Obs.</td>
<td>325</td>
<td>328</td>
<td>325</td>
<td>328</td>
</tr>
<tr>
<td>No. of Cluster</td>
<td>56</td>
<td>58</td>
<td>56</td>
<td>58</td>
</tr>
</tbody>
</table>

†, *, **, and *** represent 10%, 5%, 1%, and less than 0.1% significance level, respectively.
( ) contains robust standard errors.
Table 4-7 through Table 4-10 indicate the results for testing Hypothesis 4, which concerns the relationship between generalist CEOs and strategic novelty mediated by social novelty. To have a mediation effect, four criteria need to be satisfied (Baron & Kenny, 1986). First, the independent variable (i.e., generalist CEOs) must be significantly related to the mediator (i.e., social novelty). Second, the same independent variable (i.e., generalist CEOs) must be significantly related to the dependent variable (i.e., strategic novelty). Third, when all variables are included in the model, the mediator (i.e., social novelty) must be related to the dependent variable (i.e., strategic novelty). Lastly, the independent variable (i.e., generalist CEOs) should be diminished in magnitude and significance.

The mediation tests for generalist CEOs on strategic novelty through age heterogeneity are shown in Table 4-7. Building on the base models discussed earlier, the model H2a-(1) shows an insignificant effect of generalist CEOs on age heterogeneity, which does not satisfy the first criteria of mediation effect. Therefore, Hypothesis 4a for the relationship between generalist CEOs and strategic novelty mediated by age heterogeneity is not supported. The mediation tests for generalist CEOs on strategic novelty mediated by tenure heterogeneity are shown in Table 4-8. Again, building on the base models discussed earlier, Model H2a-(2) shows an insignificant effect of generalist CEOs on tenure heterogeneity, which does not satisfy the first criteria of mediation effect. Therefore, Hypothesis 4b for the relationship between generalist CEOs and strategic novelty mediated by tenure heterogeneity is not supported.

The mediation tests for generalist CEOs on strategic novelty mediated by gender heterogeneity are shown in Table 4-9. Building on the base models discussed earlier, the
Model H2a-(3) shows a positive and significant effect of generalist CEOs on gender heterogeneity, which satisfies the first criteria of mediation effect. Also, Models H1a and H1b show a positive effect of generalist CEOs on strategic novelty, which also satisfies the second criteria of mediation effect. In addition, in Models H4c-(1) and H4c-(2), the effect of generalist CEOs becomes insignificant when gender heterogeneity is introduced in the model. This satisfies the third and fourth criteria of mediation effect. Therefore, Hypothesis 4c for the relationship between generalist CEOs and strategic novelty mediated by gender heterogeneity is supported and a full mediation effect is found.

The mediation tests for generalist CEOs on strategic novelty mediated by TMT member change are shown in Table 4-10. Building on the base models discussed earlier, Model H2b shows a positive and significant effect of generalist CEOs on TMT member change, which satisfies the first criteria of mediation effect. Also, Models H1a and H1b show a positive effect of generalist CEOs on strategic novelty, which also satisfies the second criteria of mediation effect. In addition, in Model H4d-(2), the effect of generalist CEOs on strategic disconformity becomes insignificant when TMT member change is introduced in the model. This satisfies the third and fourth criteria of mediation effect. Therefore, Hypothesis 4d for the relationship between generalist CEOs and strategic novelty mediated by TMT member change is partially supported and a full mediation effect is found.

I further tested the mediation effect by performing a Sobel (1982) test. A Sobel test indicated that gender heterogeneity mediates the relationship between generalist CEOs and strategic disconformity (Sobel test $p<0.05$), but a Sobel test for other mediators was not significant.


<table>
<thead>
<tr>
<th></th>
<th>H2a-(1) Age heterogeneity</th>
<th>H1a Strategic Change</th>
<th>H1b Strategic Disconformity</th>
<th>H4a-(1) Strategic change</th>
<th>H4a-(2) Strategic disconformity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-27.760*</td>
<td>(11.627)</td>
<td>-1.457</td>
<td>(2.067)</td>
<td>-7.394</td>
</tr>
<tr>
<td>Firm size</td>
<td>-4.628***</td>
<td>(1.123)</td>
<td>-0.464**</td>
<td>(0.181)</td>
<td>-1.107***</td>
</tr>
<tr>
<td>Leverage</td>
<td>-1.615</td>
<td>(1.267)</td>
<td>1.382***</td>
<td>(0.222)</td>
<td>1.284***</td>
</tr>
<tr>
<td>Capital intensity</td>
<td>6.838*</td>
<td>(2.863)</td>
<td>2.406***</td>
<td>(0.500)</td>
<td>4.085***</td>
</tr>
<tr>
<td>Liquidity</td>
<td>2.175***</td>
<td>(0.586)</td>
<td>0.398**</td>
<td>(0.159)</td>
<td>1.133***</td>
</tr>
<tr>
<td>Profitability</td>
<td>7.792*</td>
<td>(3.181)</td>
<td>0.310</td>
<td>(0.837)</td>
<td>-2.950†</td>
</tr>
<tr>
<td>Firm age</td>
<td>-1.751</td>
<td>(2.778)</td>
<td>-0.041</td>
<td>(0.359)</td>
<td>1.003</td>
</tr>
<tr>
<td>CEO tenure</td>
<td>-0.064</td>
<td>(0.060)</td>
<td>0.029***</td>
<td>(0.011)</td>
<td>0.038</td>
</tr>
<tr>
<td>CEO age</td>
<td>30.055***</td>
<td>(8.539)</td>
<td>-0.873</td>
<td>(1.330)</td>
<td>-1.237</td>
</tr>
<tr>
<td>CEO stock option</td>
<td>-0.221</td>
<td>(0.776)</td>
<td>-0.011</td>
<td>(0.144)</td>
<td>1.382*</td>
</tr>
<tr>
<td>Generalist CEOs</td>
<td>-1.572</td>
<td>(2.325)</td>
<td>*<em>0.862</em></td>
<td>(0.390)</td>
<td>*<em>1.604</em></td>
</tr>
<tr>
<td>Age heterogeneity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>**0.024†</td>
</tr>
<tr>
<td>Wald Chi²</td>
<td>95.91***</td>
<td>76.21***</td>
<td>178.33***</td>
<td>38.76***</td>
<td>117.34***</td>
</tr>
<tr>
<td>Year effects</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Obs.</td>
<td>341</td>
<td>320</td>
<td>313</td>
<td>320</td>
<td>313</td>
</tr>
<tr>
<td>No. of Cluster</td>
<td>57</td>
<td>55</td>
<td>55</td>
<td>55</td>
<td>55</td>
</tr>
</tbody>
</table>

†, *, **, and *** represent 10%, 5%, 1%, and less than 0.1% significance level, respectively. ( ) contains robust standard errors.
Table 4-8

*Test Results of Hypothesis 4b (Mediation Effects of Tenure Heterogeneity)*

<table>
<thead>
<tr>
<th></th>
<th>H2a-(2) Tenure heterogeneity</th>
<th>H1a Strategic Change</th>
<th>H1b Strategic Disconformity</th>
<th>H4b-(1) Strategic change</th>
<th>H4b-(2) Strategic disconformity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-53.425* (24.323)</td>
<td>-1.457 (2.067)</td>
<td>-7.394 (6.330)</td>
<td>-1.242 (3.475)</td>
<td>3.635 (3.041)</td>
</tr>
<tr>
<td>Firm size</td>
<td>-4.576 (3.922)</td>
<td>-0.464** (0.181)</td>
<td>-1.107*** (0.304)</td>
<td>-0.042 (0.271)</td>
<td>-1.505*** (0.322)</td>
</tr>
<tr>
<td>Leverage</td>
<td>-8.819† (4.533)</td>
<td>1.382*** (0.222)</td>
<td>1.284*** (0.304)</td>
<td>1.123* (0.474)</td>
<td>0.101 (0.194)</td>
</tr>
<tr>
<td>Capital intensity</td>
<td>-56.000*** (12.032)</td>
<td>2.406*** (0.500)</td>
<td>4.085*** (1.038)</td>
<td>0.240 (0.876)</td>
<td>1.209 (0.808)</td>
</tr>
<tr>
<td>Liquidity</td>
<td>-2.656† (1.477)</td>
<td>0.398** (0.159)</td>
<td>1.133*** (0.323)</td>
<td>0.064 (0.197)</td>
<td>0.020 (0.223)</td>
</tr>
<tr>
<td>Profitability</td>
<td>-42.478** (16.360)</td>
<td>0.310 (0.837)</td>
<td>-2.950† (1.553)</td>
<td>0.996 (0.799)</td>
<td>0.241 (1.070)</td>
</tr>
<tr>
<td>Firm age</td>
<td>2.738 (8.286)</td>
<td>-0.041 (0.359)</td>
<td>1.003 (0.612)</td>
<td>0.102 (0.464)</td>
<td>1.544** (0.516)</td>
</tr>
<tr>
<td>CEO tenure</td>
<td>-0.478† (0.259)</td>
<td>0.029*** (0.011)</td>
<td>0.038 (0.026)</td>
<td>0.072** (0.024)</td>
<td>0.012 (0.021)</td>
</tr>
<tr>
<td>CEO age</td>
<td>96.428*** (12.855)</td>
<td>-0.873 (1.330)</td>
<td>-1.237 (3.220)</td>
<td>-0.803 (1.954)</td>
<td>-5.293** (1.945)</td>
</tr>
<tr>
<td>CEO stock option</td>
<td>-0.722 (2.488)</td>
<td>-0.011 (0.144)</td>
<td>1.382* (0.627)</td>
<td>-0.643* (0.305)</td>
<td>0.463 (0.284)</td>
</tr>
<tr>
<td>Generalist CEOs</td>
<td>-14.929 (9.277)</td>
<td><strong>0.862</strong> (0.390)</td>
<td><strong>1.604</strong> (0.801)</td>
<td>0.452 (0.356)</td>
<td>1.088† (0.577)</td>
</tr>
<tr>
<td>Tenure heterogeneity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-0.002 (0.007)</td>
</tr>
<tr>
<td>Wald Chi²</td>
<td>81.67***</td>
<td>76.21***</td>
<td>178.33***</td>
<td>42.33***</td>
<td>110.12***</td>
</tr>
<tr>
<td>Year effects</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Obs.</td>
<td>341</td>
<td>320</td>
<td>313</td>
<td>320</td>
<td>313</td>
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<td>No. of Cluster</td>
<td>57</td>
<td>55</td>
<td>55</td>
<td>55</td>
<td>55</td>
</tr>
</tbody>
</table>

†, *, **, and *** represent 10%, 5%, 1%, and less than 0.1% significance level, respectively.  
( ) contains robust standard errors.
### Table 4-9

**Test Results of Hypothesis 4c (Mediation Effects of Gender Heterogeneity)**

<table>
<thead>
<tr>
<th></th>
<th>H2a-(3) Gender heterogeneity</th>
<th>H1a Strategic Change</th>
<th>H1b Strategic Disconformity</th>
<th>H4c-(1) Strategic change</th>
<th>H4c-(2) Strategic disconformity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-0.312</td>
<td>(0.364)</td>
<td>-1.457</td>
<td>(2.067)</td>
<td>-7.394</td>
</tr>
<tr>
<td>Firm size</td>
<td>0.181***</td>
<td>(0.033)</td>
<td>-0.464**</td>
<td>(0.181)</td>
<td>-1.107***</td>
</tr>
<tr>
<td>Leverage</td>
<td>-0.041</td>
<td>(0.037)</td>
<td>1.382***</td>
<td>(0.222)</td>
<td>1.284***</td>
</tr>
<tr>
<td>Capital intensity</td>
<td>0.088</td>
<td>(0.094)</td>
<td>2.406***</td>
<td>(0.500)</td>
<td>4.085***</td>
</tr>
<tr>
<td>Liquidity</td>
<td>0.035</td>
<td>(0.043)</td>
<td>0.398**</td>
<td>(0.159)</td>
<td>1.133***</td>
</tr>
<tr>
<td>Profitability</td>
<td>-0.266**</td>
<td>(0.091)</td>
<td>0.310</td>
<td>(0.837)</td>
<td>-2.950†</td>
</tr>
<tr>
<td>Firm age</td>
<td>0.120</td>
<td>(0.076)</td>
<td>-0.041</td>
<td>(0.359)</td>
<td>1.003</td>
</tr>
<tr>
<td>CEO tenure</td>
<td>-0.005†</td>
<td>(0.002)</td>
<td>0.029***</td>
<td>(0.011)</td>
<td>0.038</td>
</tr>
<tr>
<td>CEO age</td>
<td>-0.163</td>
<td>(0.245)</td>
<td>-0.873</td>
<td>(1.330)</td>
<td>-1.237</td>
</tr>
<tr>
<td>CEO stock option</td>
<td>-0.003</td>
<td>(0.022)</td>
<td>-0.011</td>
<td>(0.144)</td>
<td>1.382*</td>
</tr>
<tr>
<td>Generalist CEOs</td>
<td>0.209*</td>
<td>(0.095)</td>
<td><strong>0.862</strong></td>
<td>(0.390)</td>
<td><strong>1.604</strong></td>
</tr>
<tr>
<td>Gender heterogeneity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Wald Chi² 214.12*** 76.21*** 178.33*** 57.83*** 31.42***

- Yes: Yes

Obs. 341 320 313 320 313

No. of Cluster 57 55 55 55 55

†, *, **, and *** represent 10%, 5%, 1%, and less than 0.1% significance level, respectively.

( ) contains robust standard errors.
Table 4-10

*Test Results of Hypothesis 4d (Mediation Effects of TMT member change)*

<table>
<thead>
<tr>
<th></th>
<th>H2b TMT member change</th>
<th>H1a Strategic Change</th>
<th>H1b Strategic Disconformity</th>
<th>H4d-(1) Strategic change</th>
<th>H4d-(2) Strategic disconformity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-1.233</td>
<td>(0.976)</td>
<td>-1.457</td>
<td>(2.067)</td>
<td>-7.394</td>
</tr>
<tr>
<td>Firm size</td>
<td>0.261***</td>
<td>(0.055)</td>
<td>-0.464**</td>
<td>(0.181)</td>
<td>-1.107***</td>
</tr>
<tr>
<td>Leverage</td>
<td>0.066</td>
<td>(0.053)</td>
<td>1.382***</td>
<td>(0.222)</td>
<td>1.284***</td>
</tr>
<tr>
<td>Capital intensity</td>
<td>-0.100</td>
<td>(0.151)</td>
<td>2.406***</td>
<td>(0.500)</td>
<td>4.085***</td>
</tr>
<tr>
<td>Liquidity</td>
<td>0.032</td>
<td>(0.049)</td>
<td>0.398**</td>
<td>(0.159)</td>
<td>1.133***</td>
</tr>
<tr>
<td>Profitability</td>
<td>-0.212</td>
<td>(0.129)</td>
<td>0.310</td>
<td>(0.837)</td>
<td>-2.950†</td>
</tr>
<tr>
<td>Firm age</td>
<td>-0.204***</td>
<td>(0.052)</td>
<td>-0.041</td>
<td>(0.359)</td>
<td>1.003</td>
</tr>
<tr>
<td>CEO tenure</td>
<td>0.007†</td>
<td>(0.004)</td>
<td>0.029***</td>
<td>(0.011)</td>
<td>0.038</td>
</tr>
<tr>
<td>CEO age</td>
<td>0.537</td>
<td>(0.523)</td>
<td>-0.873</td>
<td>(1.330)</td>
<td>-1.237</td>
</tr>
<tr>
<td>CEO stock option</td>
<td>0.088</td>
<td>(0.087)</td>
<td>-0.011</td>
<td>(0.144)</td>
<td>1.382*</td>
</tr>
<tr>
<td>Generalist CEOs</td>
<td>0.248*</td>
<td>(0.116)</td>
<td>0.862*</td>
<td>(0.390)</td>
<td>1.604*</td>
</tr>
<tr>
<td>TMT member change</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-0.311</td>
</tr>
</tbody>
</table>

Wald Chi²: 699.88***  76.21***  178.33***  63.34***  342.35***

Year effects: Yes Yes Yes Yes Yes
Obs.: 334 320 313 320 313
No. of Cluster: 55 55 55 55 55

†, *, **, and *** represent 10%, 5%, 1%, and less than 0.1% significance level, respectively.
( ) contains robust standard errors.
Table 4-11 presents the results for testing Hypothesis 5, which concerns the moderating effect of CEO power on the relationship between generalist CEOs and social novelty. In Model H5a, the coefficient of the interaction term (Generalist CEOs × CEO Power) is positive and significant (β = 4.203, p<0.05). In Models H5b and H5c, the coefficients of the interaction term (Generalist CEOs × CEO Power) are not significant. Also, in Model H5d, the coefficient of the interaction term (Generalist CEOs × CEO Power) is positive and significant (β = 0.257, p<0.05). Therefore, Hypothesis 5, suggesting the positive moderating effect of CEO power on the relationship between generalist CEOs and social novelty, is supported.
Table 4-11

Test Results of Hypothesis 5 (Moderating Effects of CEO Power Between Generalist CEOs and Social Novelty)

<table>
<thead>
<tr>
<th></th>
<th>H5a: Age heterogeneity</th>
<th>H5b: Tenure heterogeneity</th>
<th>H5c: Gender heterogeneity</th>
<th>H5d: TMT member change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-20.279 (9.113)</td>
<td>7.764 (36.274)</td>
<td>-0.584* (0.338)</td>
<td>0.473 (0.342)</td>
</tr>
<tr>
<td>Firm size</td>
<td>-3.895*** (0.939)</td>
<td>4.525 (3.780)</td>
<td>0.105* (0.047)</td>
<td>0.075** (0.029)</td>
</tr>
<tr>
<td>Leverage</td>
<td>-1.066 (0.847)</td>
<td>-5.099 (3.421)</td>
<td>0.040 (0.048)</td>
<td>-0.022 (0.042)</td>
</tr>
<tr>
<td>Capital intensity</td>
<td>5.510** (2.050)</td>
<td>32.449*** (8.268)</td>
<td>-0.009 (0.086)</td>
<td>0.290*** (0.085)</td>
</tr>
<tr>
<td>Liquidity</td>
<td>0.602 (0.555)</td>
<td>0.137 (2.257)</td>
<td>0.022 (0.020)</td>
<td>0.041 (0.036)</td>
</tr>
<tr>
<td>Profitability</td>
<td>-4.130 (3.801)</td>
<td>-5.059 (15.328)</td>
<td>0.029 (0.130)</td>
<td>0.093 (0.090)</td>
</tr>
<tr>
<td>Firm age</td>
<td>-2.208 (1.945)</td>
<td>-3.352 (7.781)</td>
<td>-0.045 (0.087)</td>
<td>0.083† (0.050)</td>
</tr>
<tr>
<td>CEO tenure</td>
<td>0.036 (0.059)</td>
<td>0.044 (0.238)</td>
<td>0.004* (0.002)</td>
<td>0.000 (0.002)</td>
</tr>
<tr>
<td>CEO age</td>
<td>26.123*** (5.744)</td>
<td>31.395 (22.697)</td>
<td>0.248 (0.189)</td>
<td>-0.246 (0.214)</td>
</tr>
<tr>
<td>CEO stock option</td>
<td>-0.829 (0.732)</td>
<td>-3.536 (2.980)</td>
<td>-0.005 (0.020)</td>
<td>0.041 (0.071)</td>
</tr>
<tr>
<td>Generalist CEOs</td>
<td>1.213 (2.134)</td>
<td>-10.077 (8.514)</td>
<td>0.048 (0.080)</td>
<td>0.033 (0.048)</td>
</tr>
<tr>
<td>CEO Power</td>
<td>-2.773* (1.109)</td>
<td>1.616 (4.484)</td>
<td>0.054 (0.055)</td>
<td>0.158** (0.056)</td>
</tr>
<tr>
<td>Generalist CEOs  × CEO Power</td>
<td>4.203* (1.802)</td>
<td>-4.814 (7.248)</td>
<td>0.050 (0.084)</td>
<td>0.257*** (0.079)</td>
</tr>
</tbody>
</table>

Wald Chi² 38.76*** 28.04** 269.91*** 38.76***
Year effects Yes Yes Yes Yes
Obs. 320 345 345 320
No. of Cluster 55 57 57 55

†, *, **, and *** represent 10%, 5%, 1%, and less than 0.1% significance level, respectively.
( ) contains robust standard errors.
4.2 Study 2: How Strategic Novelty Affects Performance Extremeness and Volatility

4.2.1 Sample Structure and Descriptive Statistics

Similar to Study 1, the initial sample size of Study 2 had 1,493 CEO-year observations identified by the NAICS over the period from 1992 to 2017. Out of 1,493 observations, some observations with missing values were removed depending on the testing models. Also, I removed some outliers using the criteria of an absolute value of a studentized residual of 4 (Younger, 1979) for further analysis. Consequently, the final sample size for each analysis ranges from 375 to 416.

Table 4-12 shows the mean and standard deviation of variables in Study 2. The mean value of total shareholders return (TSR) was 0.38, with the standard deviation of 0.69. This indicates that restaurant firms generate a good stock returns. The mean value of return on assets (ROA) was 0.07, with a standard deviation of 0.08, which implies that the restaurant firms show an average of 6% of returns on their asset efficiency.

Furthermore, TSR extremeness had a mean of 0.43, with a standard deviation of 0.56, and ROA extremeness had a mean of 0.04, with a standard deviation of 0.05. Compared to Sanders and Hambrick’s study (2007), performance extremeness of restaurant firms is relatively quite low, not deviating from expected performance. TSR volatility had a mean of 0.35, with a standard deviation of 0.48, and ROA volatility had a mean of 0.03, with a standard deviation of 0.05. All other main variables (e.g., strategic change, strategic disconformity, franchising, and internationalization) and control variables show a similar pattern to those in Study 1.
Table 4-12

Descriptive Statistics of Study 2

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic change</td>
<td>496</td>
<td>-0.83</td>
<td>2.82</td>
<td>-2.89</td>
<td>46.62</td>
</tr>
<tr>
<td>Strategic disconformity</td>
<td>496</td>
<td>-6.45</td>
<td>1.92</td>
<td>-12.86</td>
<td>6.04</td>
</tr>
<tr>
<td>TSR</td>
<td>497</td>
<td>0.38</td>
<td>0.69</td>
<td>-0.96</td>
<td>6.74</td>
</tr>
<tr>
<td>ROA</td>
<td>497</td>
<td>0.07</td>
<td>0.08</td>
<td>-0.96</td>
<td>0.61</td>
</tr>
<tr>
<td>TSR extremeness</td>
<td>455</td>
<td>0.43</td>
<td>0.56</td>
<td>0.00</td>
<td>6.44</td>
</tr>
<tr>
<td>ROA extremeness</td>
<td>455</td>
<td>0.04</td>
<td>0.05</td>
<td>0.00</td>
<td>0.54</td>
</tr>
<tr>
<td>TSR volatility</td>
<td>412</td>
<td>0.35</td>
<td>0.48</td>
<td>0.00</td>
<td>3.72</td>
</tr>
<tr>
<td>ROA volatility</td>
<td>412</td>
<td>0.03</td>
<td>0.05</td>
<td>0.00</td>
<td>0.47</td>
</tr>
<tr>
<td>Firm size</td>
<td>497</td>
<td>3.02</td>
<td>0.45</td>
<td>0.48</td>
<td>4.35</td>
</tr>
<tr>
<td>Leverage</td>
<td>497</td>
<td>0.59</td>
<td>0.48</td>
<td>0.00</td>
<td>4.07</td>
</tr>
<tr>
<td>Capital intensity</td>
<td>497</td>
<td>0.66</td>
<td>0.19</td>
<td>0.04</td>
<td>0.97</td>
</tr>
<tr>
<td>Liquidity</td>
<td>497</td>
<td>0.53</td>
<td>0.51</td>
<td>0.01</td>
<td>3.92</td>
</tr>
<tr>
<td>Profitability</td>
<td>497</td>
<td>0.24</td>
<td>0.10</td>
<td>0.06</td>
<td>0.79</td>
</tr>
<tr>
<td>Firm age</td>
<td>497</td>
<td>34.09</td>
<td>17.12</td>
<td>0.48</td>
<td>81.00</td>
</tr>
<tr>
<td>advertising intensity</td>
<td>497</td>
<td>0.02</td>
<td>0.03</td>
<td>0.00</td>
<td>0.48</td>
</tr>
<tr>
<td>R&amp;D intensity</td>
<td>497</td>
<td>0.00</td>
<td>0.02</td>
<td>0.00</td>
<td>0.48</td>
</tr>
<tr>
<td>Overhead efficiency</td>
<td>497</td>
<td>0.10</td>
<td>0.08</td>
<td>0.00</td>
<td>0.62</td>
</tr>
<tr>
<td>Franchising</td>
<td>497</td>
<td>0.64</td>
<td>0.33</td>
<td>-0.14</td>
<td>1.00</td>
</tr>
<tr>
<td>Internationalization</td>
<td>497</td>
<td>0.92</td>
<td>0.14</td>
<td>0.20</td>
<td>1.00</td>
</tr>
<tr>
<td>CEO tenure</td>
<td>497</td>
<td>9.68</td>
<td>8.69</td>
<td>0.48</td>
<td>44.00</td>
</tr>
<tr>
<td>CEO age</td>
<td>497</td>
<td>1.73</td>
<td>0.11</td>
<td>-0.32</td>
<td>1.89</td>
</tr>
<tr>
<td>CEO stock option</td>
<td>494</td>
<td>0.26</td>
<td>0.25</td>
<td>0.00</td>
<td>1.00</td>
</tr>
</tbody>
</table>

4.2.2 Preliminary Analysis

Table 4-13 shows the results of Pearson correlations among variables in Study 2.

According to the result, there are no extremely high correlations and, therefore, no severe multicollinearity issue. As can be seen in Table 4-11, strategic change is positively and significantly associated with all performance measure ($\rho=0.11$ for TSR extremeness, $\rho=0.19$ for ROA extremeness, $\rho=0.42$ for TSR volatility, and $\rho=0.27$ for ROS volatility).

Strategic disconformity is also positively and significantly associated with TSR volatility ($\rho=0.19$). Thus, the bivariate correlations are consistent with the hypotheses in Study 2.
Table 4-13

*Pearson Correlations of Study 2*

<table>
<thead>
<tr>
<th></th>
<th>TSR</th>
<th>ROA</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
<th>(8)</th>
<th>(9)</th>
<th>(10)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) SC</td>
<td>0.11*</td>
<td>-0.12*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) SD</td>
<td>0.14**</td>
<td>-0.20***</td>
<td>0.09</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Firm size</td>
<td>-0.05</td>
<td>0.27***</td>
<td>-0.04</td>
<td>-0.40***</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Leverage</td>
<td>0.10</td>
<td>0.19***</td>
<td>0.12*</td>
<td>-0.09</td>
<td>0.21***</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) Capital intensity</td>
<td>0.05</td>
<td>-0.17***</td>
<td>-0.12*</td>
<td>0.46***</td>
<td>-0.15**</td>
<td>-0.38***</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(6) Liquidity</td>
<td>-0.03</td>
<td>0.11*</td>
<td>0.03</td>
<td>-0.03</td>
<td>-0.10*</td>
<td>-0.06</td>
<td>-0.50***</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(7) Profitability</td>
<td>-0.12*</td>
<td>0.19***</td>
<td>-0.08</td>
<td>-0.04</td>
<td>0.06</td>
<td>0.12*</td>
<td>-0.09</td>
<td>0.07</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(8) Firm age</td>
<td>-0.02</td>
<td>-0.11*</td>
<td>-0.03</td>
<td>0.09</td>
<td>-0.01</td>
<td>0.23***</td>
<td>0.04</td>
<td>-0.07</td>
<td>0.03</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(9) CEO tenure</td>
<td>-0.10*</td>
<td>0.15**</td>
<td>-0.11*</td>
<td>-0.00</td>
<td>0.02</td>
<td>-0.19***</td>
<td>-0.04</td>
<td>0.21***</td>
<td>-0.03</td>
<td>0.03</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(10) CEO age</td>
<td>-0.02</td>
<td>-0.09</td>
<td>-0.00</td>
<td>-0.11*</td>
<td>0.15**</td>
<td>0.02</td>
<td>0.04</td>
<td>-0.14**</td>
<td>0.10*</td>
<td>0.25***</td>
<td>0.10</td>
<td></td>
</tr>
<tr>
<td>(11) CEO stock option</td>
<td>-0.04</td>
<td>0.12*</td>
<td>0.02</td>
<td>-0.00</td>
<td>0.22***</td>
<td>-0.04</td>
<td>0.00</td>
<td>0.05</td>
<td>0.05</td>
<td>-0.03</td>
<td>0.14**</td>
<td>-0.11*</td>
</tr>
</tbody>
</table>

†, *, **, and *** represent 10%, 5%, 1%, and less than 0.1% significance level, respectively.
4.2.3 Main Analyses: Testing Hypotheses

The results of GEE modeling for testing Hypothesis 6a are presented in Table 4-14. Holding control variables constant, the effects of strategic change and strategic disconformity on TSR extremeness are positive and significant ($\beta = 0.031$ and $0.036$, $p < 0.05$, respectively, in Model H6a-(4)). On the other hand, in Table 4-15, the effects of strategic change and strategic disconformity on ROA extremeness are positive and but not significant ($\beta = 0.001$ and $0.002$, $p > 0.10$, respectively, in Model H6a-(8)). Thus, Hypothesis 6a for the positive effect of strategic novelty on performance extremeness is partially supported.

Table 4-16 and Table 17 show the results for testing Hypothesis 6b, which concerns the effect of strategic novelty on performance volatility. Specifically, in Table 4-16, the effects of strategic change and strategic disconformity on TSR volatility are positive and significant ($\beta = 0.066$ and $0.055$, $p < 0.05$, respectively, in Model H6b-(4)). Moreover, in Table 4-17, the effects of strategic change and strategic disconformity on ROA extremeness are also positive and significant ($\beta = 0.005$ and $0.007$, $p < 0.05$, respectively, in Model H6b-(8)). Therefore, Hypothesis 6b on the positive effect of strategic novelty on performance volatility is supported.
Table 4-14

Test Results of Hypothesis 6a (The Effect of Strategic Novelty on TSR Extremeness)

<table>
<thead>
<tr>
<th>TSR Extremeness</th>
<th>H6a-(1)</th>
<th>H6a-(2)</th>
<th>H6a-(3)</th>
<th>H6a-(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>0.700 (0.678)</td>
<td>0.671 (0.637)</td>
<td>-0.608 (0.501)</td>
<td>-0.516 (0.675)</td>
</tr>
<tr>
<td>Firm size</td>
<td>0.063 (0.051)</td>
<td>0.080† (0.048)</td>
<td>0.100* (0.045)</td>
<td>0.132* (0.058)</td>
</tr>
<tr>
<td>Leverage</td>
<td>0.107† (0.057)</td>
<td>0.093† (0.052)</td>
<td>0.079† (0.043)</td>
<td>0.055 (0.052)</td>
</tr>
<tr>
<td>Capital intensity</td>
<td>0.208 (0.145)</td>
<td>0.259 (0.147)</td>
<td>0.012 (0.146)</td>
<td>0.028 (0.163)</td>
</tr>
<tr>
<td>Liquidity</td>
<td>0.134** (0.046)</td>
<td>0.137** (0.044)</td>
<td>0.112*** (0.031)</td>
<td>0.110** (0.042)</td>
</tr>
<tr>
<td>Profitability</td>
<td>-0.227 (0.218)</td>
<td>-0.176 (0.208)</td>
<td>-0.239 (0.170)</td>
<td>-0.167 (0.145)</td>
</tr>
<tr>
<td>Firm age</td>
<td>0.059 (0.061)</td>
<td>0.089 (0.066)</td>
<td>0.055 (0.069)</td>
<td>0.095 (0.080)</td>
</tr>
<tr>
<td>CEO tenure</td>
<td>-0.008*** (0.001)</td>
<td>-0.007*** (0.001)</td>
<td>-0.008*** (0.002)</td>
<td>-0.007*** (0.001)</td>
</tr>
<tr>
<td>CEO age</td>
<td>0.332 (0.374)</td>
<td>0.249 (0.366)</td>
<td>0.425 (0.295)</td>
<td>0.317 (0.362)</td>
</tr>
<tr>
<td>CEO stock option</td>
<td>0.096 (0.064)</td>
<td>0.089 (0.063)</td>
<td>0.088 (0.064)</td>
<td>0.077 (0.062)</td>
</tr>
<tr>
<td>Strategic change</td>
<td>0.024* (0.012)</td>
<td>0.031* (0.014)</td>
<td>0.029* (0.012)</td>
<td>0.036† (0.020)</td>
</tr>
<tr>
<td>Strategic disconformity</td>
<td>0.029* (0.012)</td>
<td>0.036† (0.020)</td>
<td>0.029* (0.012)</td>
<td>0.036† (0.020)</td>
</tr>
</tbody>
</table>

Wald Chi² 50.42*** 58.37*** 46.52*** 43.92***
Year effects Yes Yes Yes Yes
Obs. 416 416 416 416
No. of Cluster 69 60 60 60

†, *, **, and *** represent 10%, 5%, 1%, and less than 0.1% significance level, respectively.
( ) contains robust standard errors.
Table 4-15

*Test Results of Hypothesis 6a (The Effect of Strategic Novelty on ROA Extremeness)*

<table>
<thead>
<tr>
<th></th>
<th>H6a-(5)</th>
<th>H6a-(6)</th>
<th>H6a-(7)</th>
<th>H6a-(8)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>0.078</td>
<td>(0.057)</td>
<td>0.078</td>
<td>(0.056)</td>
</tr>
<tr>
<td>Firm size</td>
<td>-0.006</td>
<td>(0.007)</td>
<td>-0.005</td>
<td>(0.007)</td>
</tr>
<tr>
<td>Leverage</td>
<td>0.013†</td>
<td>(0.007)</td>
<td>0.012†</td>
<td>(0.007)</td>
</tr>
<tr>
<td>Capital intensity</td>
<td>-0.049**</td>
<td>(0.016)</td>
<td>-0.047**</td>
<td>(0.016)</td>
</tr>
<tr>
<td>Liquidity</td>
<td>0.002</td>
<td>(0.004)</td>
<td>0.003</td>
<td>(0.003)</td>
</tr>
<tr>
<td>Profitability</td>
<td>-0.015</td>
<td>(0.029)</td>
<td>-0.012</td>
<td>(0.030)</td>
</tr>
<tr>
<td>Firm age</td>
<td>0.006</td>
<td>(0.010)</td>
<td>0.007</td>
<td>(0.010)</td>
</tr>
<tr>
<td>CEO tenure</td>
<td>0.000</td>
<td>(0.000)</td>
<td>0.000</td>
<td>(0.000)</td>
</tr>
<tr>
<td>CEO age</td>
<td>-0.005</td>
<td>(0.032)</td>
<td>-0.008</td>
<td>(0.034)</td>
</tr>
<tr>
<td>CEO stock option</td>
<td>0.001</td>
<td>(0.008)</td>
<td>0.001</td>
<td>(0.008)</td>
</tr>
<tr>
<td>Strategic change</td>
<td>0.001</td>
<td>(0.001)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic disconformity</td>
<td></td>
<td></td>
<td>0.001</td>
<td>(0.002)</td>
</tr>
<tr>
<td>Wald Chi²</td>
<td>32.56***</td>
<td>36.30***</td>
<td>31.69***</td>
<td>35.67***</td>
</tr>
<tr>
<td>Year effects</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Obs.</td>
<td>417</td>
<td>417</td>
<td>417</td>
<td>417</td>
</tr>
<tr>
<td>No. of Cluster</td>
<td>69</td>
<td>69</td>
<td>69</td>
<td>69</td>
</tr>
</tbody>
</table>

†, *, **, and *** represent 10%, 5%, 1%, and less than 0.1% significance level, respectively.

( ) contains robust standard errors.
### Table 4-16

**Test Results of Hypothesis 6b (The Effect of Strategic Novelty on TSR Volatility)**

<table>
<thead>
<tr>
<th></th>
<th>TSR Volatility</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>H6b-(1)</td>
</tr>
<tr>
<td>Constant</td>
<td>0.181 (0.795)</td>
</tr>
<tr>
<td>Firm size</td>
<td>-0.021 (0.055)</td>
</tr>
<tr>
<td>Leverage</td>
<td>0.096 (0.112)</td>
</tr>
<tr>
<td>Capital intensity</td>
<td>0.369* (0.157)</td>
</tr>
<tr>
<td>Liquidity</td>
<td>0.064† (0.039)</td>
</tr>
<tr>
<td>Profitability</td>
<td>-0.610 (0.396)</td>
</tr>
<tr>
<td>Firm age</td>
<td>0.152* (0.071)</td>
</tr>
<tr>
<td>CEO tenure</td>
<td>0.005* (0.002)</td>
</tr>
<tr>
<td>CEO age</td>
<td>-0.120 (0.467)</td>
</tr>
<tr>
<td>CEO stock option</td>
<td>0.002 (0.083)</td>
</tr>
<tr>
<td>Strategic change</td>
<td><strong>0.058</strong> (0.019)</td>
</tr>
<tr>
<td>Strategic disconformity</td>
<td>0.037* (0.015)</td>
</tr>
<tr>
<td>Wald Chi²</td>
<td>20.66**</td>
</tr>
<tr>
<td>Year effects</td>
<td>Yes</td>
</tr>
<tr>
<td>Obs.</td>
<td>375</td>
</tr>
<tr>
<td>No. of Cluster</td>
<td>59</td>
</tr>
</tbody>
</table>

†, *, **, and *** represent 10%, 5%, 1%, and less than 0.1% significance level, respectively.

( ) contains robust standard errors.
Table 4-17

*Test Results of Hypothesis 6b (The Effect of Strategic Novelty on ROA Volatility)*

<table>
<thead>
<tr>
<th></th>
<th>ROA Volatility</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>H6b-(5)</td>
<td>H6b-(6)</td>
<td>H6b-(7)</td>
<td>H6b-(8)</td>
</tr>
<tr>
<td>Constant</td>
<td>0.213*</td>
<td>(0.084)</td>
<td>0.204*</td>
<td>(0.082)</td>
<td>0.213**</td>
</tr>
<tr>
<td>Firm size</td>
<td>-0.010</td>
<td>(0.008)</td>
<td>-0.006</td>
<td>(0.008)</td>
<td>-0.004</td>
</tr>
<tr>
<td>Leverage</td>
<td>0.008</td>
<td>(0.008)</td>
<td>0.007</td>
<td>(0.007)</td>
<td>0.005</td>
</tr>
<tr>
<td>Capital intensity</td>
<td>-0.085***</td>
<td>(0.021)</td>
<td>-0.071***</td>
<td>(0.021)</td>
<td>-0.113***</td>
</tr>
<tr>
<td>Liquidity</td>
<td>-0.005</td>
<td>(0.005)</td>
<td>-0.003</td>
<td>(0.005)</td>
<td>-0.007</td>
</tr>
<tr>
<td>Profitability</td>
<td>-0.114***</td>
<td>(0.031)</td>
<td>-0.098***</td>
<td>(0.030)</td>
<td>-0.116***</td>
</tr>
<tr>
<td>Firm age</td>
<td>0.022</td>
<td>(0.014)</td>
<td>0.024†</td>
<td>(0.014)</td>
<td>0.021</td>
</tr>
<tr>
<td>CEO tenure</td>
<td>0.000</td>
<td>(0.000)</td>
<td>0.000</td>
<td>(0.000)</td>
<td>0.000</td>
</tr>
<tr>
<td>CEO age</td>
<td>-0.057</td>
<td>(0.050)</td>
<td>-0.066</td>
<td>(0.049)</td>
<td>-0.036</td>
</tr>
<tr>
<td>CEO stock option</td>
<td>-0.005</td>
<td>(0.009)</td>
<td>-0.008</td>
<td>(0.009)</td>
<td>-0.007</td>
</tr>
<tr>
<td>Strategic change</td>
<td>0.004**</td>
<td>(0.001)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic disconformity</td>
<td>0.005*</td>
<td>(0.002)</td>
<td></td>
<td></td>
<td>0.007***</td>
</tr>
<tr>
<td>Wald Chi²</td>
<td>47.93***</td>
<td></td>
<td>58.65***</td>
<td></td>
<td>55.29***</td>
</tr>
<tr>
<td>Year effects</td>
<td>Yes</td>
<td></td>
<td>Yes</td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Obs.</td>
<td>377</td>
<td></td>
<td>377</td>
<td></td>
<td>377</td>
</tr>
<tr>
<td>No. of Cluster</td>
<td>60</td>
<td></td>
<td>60</td>
<td></td>
<td>60</td>
</tr>
</tbody>
</table>

†, *, **, and *** represent 10%, 5%, 1%, and less than 0.1% significance level, respectively.
( ) contains robust standard errors.
CHAPTER 5
DISCUSSION AND CONCLUSION

The purpose of this dissertation is to find the relationship between generalist CEOs, social novelty, and strategic novelty, and the moderating effect of CEO power on the relationship between generalist CEOs and social novelty (Study 1). This dissertation also investigates the effect of strategic novelty on firm performance (Study 2).

This chapter summarizes the key findings of the dissertation. First, this chapter explains the results of Study 1 and Study 2. Then, this chapter discusses the theoretical and practical implications, followed by limitations and recommendations for future study.

5.1 Discussion of Results

5.1.1 The Effect of Generalist CEOs on Social and Strategic Novelty

The primary purpose of Study 1 is to test the effect of generalist CEOs on strategic novelty, as mediated by social novelty. Unlike my hypotheses for the mediating effect of social novelty, some analyses for mediating relationships indicate statistically insignificant results. Nonetheless, interesting results were obtained from the statistical analyses on the direct effects among variables.

First, I found that generalist CEOs are positively associated with a firm’s strategic novelty. That is, the proclivities of generalist CEOs toward developing and initiating novel strategic choices are reflected in a firm’s strategic change and strategic disconformity. My findings support the idea that generalist CEOs encourage firms to pursue innovative projects, bring more diverse knowledge and experiences to the firms,
and even extend firms’ boundaries because they have been exposed to different roles, companies, and industries. This result suggests that restaurant firms led by generalist CEOs are more likely to engage in year-to-year change in corporate strategies and pursue different strategic patterns compared to other competitors in the restaurant industry. This finding is consistent with the previous studies that examined how the unique traits of generalist CEOs are manifested in a firm’s innovative strategic choices. For instance, Custódio et al. (2017) found that generalist CEOs tend to develop and exploit innovative initiatives, such as patents, with higher impact and more exploratory knowledge research activities compared to specialist CEOs. This is because generalist CEOs have large stores of knowledge and experiences from multiple functional positions, companies, and industries that can be useful in pursuing innovation and are insensitive to the level of ambiguity and risk in behavioral choices. In this dissertation, I incorporated two distinct and additional strategic choices of restaurant firms in the strategic novelty measurement that was originally developed and defined in Crossland et al.’s study (2014). Even with the inclusion of franchising and internationalization strategic choices into a composite measure of strategic novelty, this dissertation shows results similar to the study by Crossland and his colleagues, in that restaurant firms managed by generalist CEOs are more likely to engage in innovative and novel strategic choices than those managed by specialist CEOs.

Second, this dissertation found a positive effect of generalist CEOs on social novelty. That is, when restaurant firms are managed by generalist CEOs, they tend to develop and create an environment where diverse knowledge and experiences exist at the top of the organization. Generalist CEOs’ preferences for generating and bringing new
and novel ideas and perspectives are satisfied through heterogeneity and new member changes at the top management level. Among four sub-hypotheses that test the effect of generalist CEOs on social novelty, the results of the analysis indicate that generalist CEOs are positively associated with gender heterogeneity and TMT member change. This implies that generalist CEOs acknowledge the importance gender diversity within the TMT because female executives can enhance a firm’s capabilities of dealing with ambiguity and uncertainty and increase flexibility toward environment changes. In addition, generalist CEOs are keen to churn team members so that new members can infuse a team with fresh insights and a better understanding of a firm’s environment that can lead to innovative initiatives and strategic changes. While having diversity within the TMT can be a double-edge sword, generalist CEOs’ inherent dispositional predilections for novelty are clearly reflected in the TMT composition where developing and initiating distinctive ideas and alternatives can be realized.

Third, the present study found interesting, but mixed results on the relationship between social novelty and strategic novelty. TMT member change is positively associated with strategic change, supporting the hypothesis. That is, new member changes in TMT can provide a firm with a wide array of perspectives and ways of thinking that are necessary for expanding the teams’ knowledges and insights. In addition, TMT turnover can evoke a culture shock that stimulates critical thinking within the group, thereby leading to more creative strategic development and practices. This finding is consistent with previous research on organizational behavior, in that removing members and hiring new ones can help firms find opportunities to acquire new perspectives and change current practices and increase structural flexibility (Mobley,
Interestingly, the study found that gender heterogeneity in TMT is negatively associated with strategic change. This is a conflicting result from the hypothesis and inconsistent with previous studies. One possible explanation for this result can be that in the restaurant industry, where male executives dominate the tops of organizations, women executives may receive more negative evaluations than men in the groups unless they prove themselves to be competent (Swim et al., 1989). Sackett et al. (1991) revealed that in a group where the proportion of women was less than 20% of total group members, women tended to receive lower performance ratings than men. This proportionality effect was not found for men. Thus, gender diversity developed in a male-dominated TMT may not receive the full benefits of having women in the TMT group.

This dissertation shows the mediating effect of social novelty on the relationship between generalist CEOs and strategic novelty. The study finds some mixed results: (1) the effect of generalist CEOs on strategic novelty is not mediated by age and tenure heterogeneity, but (2) it is mediated by gender heterogeneity and TMT member change. Specifically, when a firm has a generalist CEO, a firm is more likely to deviate from industry norms (i.e., strategic disconformity) by having more gender diversity (indirect effect = $0.862 \times 1.604 = 1.383$) and by changing their TMT members (indirect effect = $0.355 \times 1.604 = 0.569$). This finding is consistent with what I proposed in this dissertation. The heterogeneous TMT members and the addition of a new member to the TMT by a generalist CEO would be more flexible and open to new practices and innovations. However, when a firm has a generalist CEO, it is found that a firm is less likely to change its resource allocations and priorities over time (i.e., strategic change) by
having gender diversity among the TMT (indirect effect = -1.457 \times 0.862 = -1.256). This result contradicts what I expected. However, as previously explained, this may be because of the male-dominated composition of restaurant executives. The findings from the mediation effects indicate that it is not always the case that the effect of generalist CEOs on strategic novelty can be realized through social novelty that he or she created within the top of the organization.

5.1.2 The Moderating Effect of CEO Power on the Relationship Between Generalist CEOs and Social Novelty

This dissertation hypothesizes that CEO power relative to that of board members would moderate the relationship between generalist CEO and social novelty. My rationale is based on the idea that although the CEO is a relatively unconstrained figure at the top of the organization, their power can significantly vary depending on their qualities, expertise, and relations with their board members. In other words, the degree of preferences regarding social novelty can differ widely from one CEO to the next. As CEOs have more power relative to their board members, their inclinations toward social novelty are likely manifested. As hypothesized, the findings of the analysis show that CEO power positively moderates the relationship between generalist CEO and social novelty. The more CEOs have power relative to their board of directors, the more their inclinations toward social novelty are manifested. The results are quite consistent with previous studies that examined the moderating role of CEO power. Davis et al.’s study (2010) revealed that top managers’ prestige and expert power positively moderates the relationship between their entrepreneurial orientation and firm performance. Chin and his
colleagues (2013) also found that CEO power amplifies the relationship between CEOs’ political ideology and a firm’s corporate social responsibility (CSR) profiles.

5.1.3 The Effect of Strategic Novelty on Firm Performance

This dissertation found that strategic novelty is positively associated with a firm’s performance (i.e., performance extremeness and performance volatility). Restaurant firms’ engagement in strategic novelty can contribute to extreme performance and volatile performance. The present study examined the effect of strategic novelty in both market-based performance and accounting-based performance. The results of the analysis generally show consistent results on both measures. Specifically, the effect of strategic novelty appears positive for TSR extremeness, while it is insignificant for ROA extremeness. In addition, the effect of strategic novelty found positive for both TSR volatility and ROA volatility.

This finding is not quite surprising, given the nature of innovative strategic choices that are likely to result in the bigger possible downside or upside outcomes and unstable performance. Specifically, when restaurant firms change their current practices or initiate novel strategic choices that their competitors do not, there is a high possibility that the potential outcomes can be highly polarized or vary significantly. This result is also consistent with Geletkanycz and Hambrick’s (1997) study, in that the benefits of strategic conformity are greater in an uncertain environment where means-ends linkage is ambiguous. Considering the fact that the restaurant industry is highly competitive and volatile to environmental conditions (Finkelstein et al., 2009; Guillet & Mattila, 2010), changing strategies over time and deviating from accepted strategic actions in the
industry would increase performance volatility and make it deviate from expected performance.

5.2 Theoretical and Managerial Implications

The current study contributes to upper echelons theory and restaurant literature in several ways. First, this result clearly supports the fundamental idea of the upper echelons theory (Hambrick & Mason, 1984), stating that organizations are a reflection of their top executives. This study serves to underline the importance of CEOs’ characteristics on strategic outcomes and makes contributions to the broader discussion about the extent to which CEOs inject their personal preferences into corporate strategic decisions. That is, CEOs’ characteristics and preferences can give rise to a heterogeneity in organizational outcomes. In other words, CEOs are not merely the technical optimizers described in neoclassical economics, but they vary significantly in their preferences and infuse their characteristics into strategic outcomes. Thus, my findings reinforce the main tenet of upper echelons theory, in that CEOs tend to inject their personal inclinations into leadership behaviors and strategic decisions and pursue pathways that fit with their characteristics. Moreover, this dissertation enriches the restaurant literature by considering the unique characteristics of restaurant firms. In developing a composite measure of strategic novelty, this study considered franchising and internationalization strategies as idiosyncratic corporate strategies that are largely adopted in the restaurant sector. Based on the definition and measure of strategic novelty from Crossland et al.’s study (2014), this study further developed the composite measure of strategic novelty by
adding franchising and internationalization strategies. This experimental endeavor enables us to understand what strategic novelty means in the restaurant literature.

Second, despite the importance of understanding the role of CEOs in the restaurant industry, relatively less attention has been given to the upper echelon literature. Most hospitality studies have focused on the financial outcomes of firms’ strategic actions, rather than emphasizing the antecedents of strategic decision-making (Hua & Upneja, 2011; Lee et al., 2011a; Youn et al., 2015). Some studies that attempted to understand why firms are different from one another in regard to strategic choices adopted firm-specific factors (Park & Jang, 2010; Sun & Lee, 2013). In addition, as the pressure of embracing a diversity is likely to be greater in the hospitality industry due to its labor intensity, dispersed geographical location, service-oriented nature, and diversity management, understanding the social novelty at the top of the organization is also a critical research agenda in the hospitality literature (Singal, 2014). In this regard, the investigation of the antecedent of social novelty contributes to the hospitality literature by opening the eyes of hospitality researchers to the importance of top executives in an organization, thereby supporting upper echelons theory.

Third, while previous studies have emphasized the investigation of the direct relationship between executives’ characteristics on strategic choices (e.g., Crossland et al., 2014; Custódio et al., 2017; Hambrick et al., 1999; Wiersema & Bantel, 1992) or social novelty (e.g., Crossland et al., 2014), this dissertation attempts to address an important mediating effect of generalist CEOs, social novelty, and strategic novelty, which has been scarcely examined in the literature. Findings from this dissertation indicate that strategic novelty initiated by a generalist CEO, in some cases, is mediated by
social novelty. This provides us with a crucial perspective on how the TMT looks the way it does and how it affects organizational choices, capturing a “process” within the top management team to some extent. This process, such as emergence, developments, changes, or dynamics within the top management team, has been a black box for a long time in the upper echelons literature.

Fourth, the present study found the moderating effect of CEO power in the relationship between generalist CEOs and social novelty. CEO power has largely been discussed in two divergent perspectives. While agency theory argues that CEO power is described as something that needs to be controlled and limited, the strategic management literature views CEO power as a necessary means for intensifying organizational effectiveness because strong leadership enables firms to establish a clear line of authority and minimize possible conflict and political intrigue (Cannella & Monroe, 1997; Finkelstein & D’Aveni, 1994). In this sense, the findings of this study reinforce the strategic management perspective by presenting the role of CEO power as an important factor for better understanding the relationship between CEOs’ inclinations and organizational outcomes. The results are consistent with previous studies that examined the moderating effect of CEO power on the relationship between CEOs’ characteristics and strategic outcomes (Gao & Jain, 2012; Hayward & Hambrick, 1997).

Fifth, this dissertation also investigates the effect of strategic novelty on firm performance (i.e., extremeness and volatility). While the main effect of strategic novelty on firm performance is unclear in the previous studies, this dissertation found a positive effect of strategic novelty on performance extremeness and volatility, considering the uncertain and competitive environment of the restaurant industry. This result adds
additional aspects to the literature, in that it examines the organizational risk resulting from strategic novelty by considering restaurant firms’ characteristics while most previous studies (e.g., Geletkanycz & Hambrick, 1997) used the performance level (i.e., return on assets) of the general business environment.

This dissertation also provides several insights for professionals and investors in the restaurant industry. First, the findings of the study present important evidence that a firm’s strategic choices are affected by CEOs’ characteristics as well as the heterogeneity among top executives. Thus, the employment of a CEO should be undertaken with careful consideration of a person’s characteristics and career background, because this will also affect the heterogeneity and dynamics of the TMT and organizational strategies. If boards of directors perceive that organizational actions have become too conventional or predictable and the TMT needs to be changed, hiring a CEO with a variety of career experiences may help firms promote team diversity and increase strategic innovation. Second, the results of this dissertation show that CEOs’ power relative to their board members plays an important role in CEOs exerting their influence in organizational outcomes. Thus, the board of directors may need to pay attention to the degree to which CEOs possess power, because effective and appropriate monitoring can indeed mitigate agency problem. Lastly, the results of the positive effect of strategic novelty on performance extremeness and volatility present an important signal for managers and investors in the restaurant industry. In particular, as restaurant firms frequently change their strategies over time or deviate from established industry norms, their performance may rise and fall dramatically. Thus, if the managers of restaurant firms want to stabilize their performance, they may need to conform to the generally accepted strategies in the
industry. Conversely, since most investors are risk-neutral, managers may continue to pursue strategic novelty to meet these shareholders’ needs.

5.3 Limitations and Future Research

This dissertation has some limitations and recommendations for future research. First, the generalizability of the results is limited because of the sample selection and periods. The sample of this dissertation consists of publicly traded U.S. restaurants, which are mostly large firms listed in the stock market. Therefore, the findings of this dissertation may not be applied to other industries, firms in other countries, or private companies. Future studies are encouraged to collect the data of firms in other countries or private firms for a wider sample period window in order to improve the external validity of the study.

Second, the measure of generalist CEOs was composed of information on the CEOs’ previous careers available from secondary data such as Execucomp, BoardEx, and Bloomberg. This is based on the notion that the amount and variety of career experiences present the construct well. However, there may be other ways to operationalize this variable. Future studies may employ a survey method to measure a psychological construct to represent a CEO’s openness, innovativeness, or other attitudes and values (e.g., Graffin et al., 2013; Li & Hambrick, 2005). By incorporating more refined measures, the construct validity would be much more improved.

Third, investigating the relationship in different countries may be interesting. While this dissertation examines the effect of generalist CEOs on social novelty and strategic novelty within the context of the U.S., it may vary among other national
cultures. For example, Crossland and Hambrick (2007, 2011) investigated the different
effects of top executives across various nations. The positive relationship between
generalist CEOs and social or strategic novelty may be weakened when there is a high
degree of uncertainty avoidance embedded in the national culture. Thus, cross-national
studies on the topic would be an interesting area for future research.

Fourth, this dissertation focuses on CEOs’ personal preferences and experiences.
However, there may be a great opportunity to investigate career variety among other
executives or key employees in an organization. In particular, to the best of my
knowledge, there has been no research on the values or career variety among middle
managers. Thus, applying the logic of this dissertation to managers at different
organizational levels may provide new insights to the literature.

Finally, future studies can also extend the line of this research by incorporating
other relevant and interesting factors. For example, the role of corporate governance (e.g.,
compensation structure and board vigilance) may be explored in terms of the relationship
between generalist CEOs and social or strategic novelty. By investigating the relationship
from various perspectives, researchers and practitioners in the hospitality industry would
gain a better understanding of the role and effect of top executives.
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