

CEO OUTSIDE DIRECTORSHIPS AND STRATEGIC IMITATION IN R&D INVESTMENT

Board service is often explored as an important aspect of corporate governance, but one which can also provide tangible benefits to the individual serving on the board. In particular, sitting CEOs may gain valuable knowledge, experience, and social ties through understanding the operations and strategies of other firms on whose boards they may serve. Forthcoming research in the *Journal of Management* suggests that experience and social ties through outside directorships by CEOs can influence their own strategic decisions when managing their firms.

Key Takeaways:

- CEO investment patterns in R&D mimic the investment of outside firms on whose board the CEO sits.
- CEOs are more likely to imitate the R&D investments of firms on whose boards they serve when they have served on the board longer, the firm's financial performance is stronger, and the firm is smaller than the CEO's company.

Examining the actions of 66 manufacturing companies whose CEOs sit on boards of other firms over a four year period, the authors explore whether investments in research and development at a CEO's firm are related to R&D spending at a firm on which the CEO serves as a director. Results suggest that a

CEO's company's R&D spending, as a percentage of sales, increases as the R&D spending of companies on whose board the CEO sits increases. Investments in R&D are more closely related to the outside firm the longer the CEO has sat on the outside board and when the other firm has exhibited stronger financial performance, while R&D expenditures are more closely related to smaller firms where the CEO serves as a director. In short, results suggest that CEOs use external board service to guide their own strategic investment decisions internally.

In summary, board service increases CEO exposure to strategies pursued by outside firms and influences CEO investment behavior. These results are limited to manufacturing firms who engage in R&D; however, they provide some evidence CEOs imitate firms on whose boards they sit, particularly firms who have been successful and of whom they have greater knowledge. While directorships are large time commitments, they provide CEOs valuable exposure to strategies which could be beneficial to the company they manage.

Source: Oh, W.Y. & Barker, V.L. (Forthcoming). Not all ties are equal: CEO outside directorships and strategic imitation in R&D investment. *Journal of Management*, DOI: 10.1177/0149206315614371.

