Keeping Directors in Line: Social Distancing as a Control Mechanism in the Corporate Elite

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In this study, we consider the social process by which the corporate elite may have resisted pressure from stakeholders to adopt changes in corporate governance that limit managerial autonomy. We examine (1) how directors who participate in corporate governance changes that reflect greater board control over management may be subjected to a kind of informal social sanctioning, which we refer to as social distancing, on other boards; (2) how the tendency for directors to experience social distancing may be moderated by their status in the corporate elite; and (3) how directors who experience such social control could be deterred from participating subsequently in governance changes that threaten the interests of fellow top managers. We test our hypotheses with survey data on processes of social control from a sample of directors and CEOs at Forbes 500 companies and archival data on director participation in four corporate governance changes. The findings show that (1) directors who participate in governance changes that threaten managerial interests experience a higher level of social distancing on other boards, particularly when they have low to medium status in the corporate elite, and (2) directors are less likely to participate in such changes if they have recently experienced social distancing (directly or indirectly). Our theory and empirical tests ultimately address the question of *how*, or by what social process, boards of directors help maintain the solidarity of the corporate elite and serve the interests of corporate leaders.●

In the 1980s, institutional investors began to advocate specific changes in corporate governance that were thought to protect the interests of shareholders but that threatened the interests of top managers. The focus of institutional investors was on pressuring boards of directors to exercise independent control over management on shareholders' behalf. They advocated changes in board structure that would increase board independence from management, such as separating the chief executive officer (CEO) and board-chair positions and creating independent nominating committees. Moreover, they pressured boards to dismiss CEOs of underperforming companies and repeal takeover defenses that were believed to protect managers from market discipline (Useem, 1993; Black, 1998; Kang and Sorensen, 1999). The common, underlying rationale for institutional investors demanding these changes is rooted in the agency conception of corporate governance, which suggests that boards must exercise discipline and control over management, because executives, if left to their own devices, will tend to pursue policies that benefit themselves at the expense of shareholders (Davis and Thompson, 1994; Zajac and Westphal, 1995).

Institutional investors have given corporate directors personal financial incentives to make these changes by raising the credible threat of lawsuits against them if they fail to exercise control. Although director liability insurance is common, the threat remains credible because insurance does not cover criminal charges or the cost of unsuccessfully defending against charges of fraud arising from shareholder lawsuits, which together account for a majority of shareholder suits (*International Commercial Litigation,* 1997). There have

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also been significant increases in the average level of director stock ownership and the use of stock options to compensate outside directors, thus giving directors a positive economic inducement to control management on behalf of shareholders (*Financial Executive,* 1999; Korn/Ferry, 1999; Davis, Yoo, and Baker, 2003).

Event studies in the financial economics literature have tended to show positive stock market reactions to indicators of independent board control over management, including the specific indicators discussed above, providing evidence of positive economic inducement (Friedman and Singh, 1989; Sundaramurthy, 1996; Bizjak and Marquette, 1998; Westphal and Zajac, 1998; for a review, see Kang and Sorensen, 1999). Thus, many researchers and corporate governance observers, particularly those taking an economic or legal perspective, believed (or assumed) that this "revolution" in governance would be successful, or at least that it would significantly increase shareholders' control over management and limit managers' discretion to set policies that appear to advance their interests at the expense of shareholders (e.g., Millstein, 1988; Brown, 1990; Jensen, 1993). Yet, after some initial progress, governance reform has stagnated (Westphal and Zajac, 1998). The portion of large companies with an independent board chair or an independent nominating committee was only slightly higher in 1999 than in 1989, for instance. In fact, in 78 percent of S&P 500 companies, the positions of CEO and board chair are still held by the same individual (*Washington Post,* 2003, quoting a report from the Corporate Library) and most large companies—about 61 percent of the Forbes 500—still have "poison pills" in place (a poison pill is a firm's defense against a hostile takeover bid in which shareholders are given the right to buy stock at a low price to decrease the bidder's acquisition cost) (Korn/Ferry, 1989, 1999; Useem, 1996). Moreover, empirical studies have not consistently shown an effect of shareholder lawsuits or director ownership on indicators of independent board control over management, including separation of CEO/board-chair positions, repeal of takeover defenses, and dismissal of CEOs at underperforming firms (for reviews, see Black, 1998; Westphal and Zajac, 1998; Kang and Sorensen, 1999; Parrino, Sias, and Starks, 2003).

The key to understanding why directors have often not responded to personal financial incentives to reform corporate governance may lie in social processes in the corporate elite. We suggest that when corporate directors threaten the interests of top managers by participating in changes that increase board control over management, they may experience social costs that offset the potential financial benefits to them from enacting the changes. Sociological perspectives on boards of directors have long suggested that boards are a locus of social control processes whereby directors, through their service on boards, become socialized into the normative expectations and priorities of the corporate elite (Mills, 1956; Domhoff, 1970; Useem, 1982; Palmer et al., 1995; Palmer and Barber, 2001). We extend this literature by considering how boards may also provide a locus for social sanctioning of directors who have acted against the priorities of corporate

leaders and suggesting how such social control may play a critical role in perpetuating the interests and social integrity of the corporate elite. Specifically, drawing from the sociological and anthropological literatures on social control, we develop theory to explain how directors who have participated in actions that threaten the interests of top managers or diminish the social integrity of the corporate elite (which we term elite-threatening actions) may be subjected to a kind of social sanctioning, referred to as social distancing, by directors on other boards. Such social control may deter directors in the corporate elite from future participation in elite-threatening actions.

SOCIAL DISTANCING AS A CONTROL MECHANISM IN THE CORPORATE ELITE

Theoretical Background

Useem (1982, 1984) has provided considerable qualitative evidence that senior managers and directors of large, established companies possess a shared "classwide rationality" or group consciousness as members of a unified business elite (see also Palmer, 1983). Members of this inner circle of business leaders are normatively expected to protect the interests of corporations and the executives who run them (see also Domhoff, 1970). A central interest to be protected is the autonomy and final decision-making authority of top managers themselves (Useem, 1982). Davis and Thompson (1994: 160), drawing on earlier writings by Vogel (1978), noted that "the single underlying master interest that unites American corporate managers is how the [governmental] policy affects the autonomy of management and, thus, their ability to allocate economic resources without [external] interference." As a case example, Useem (1982: 220) provided evidence that leaders of major companies were expected to help lobby against government regulation in the 1970s and suggested that the threat of external regulation, and the attendant loss of managerial autonomy, prompted a "joint counteroffensive" that was "self-consciously oriented toward mastering the political process on behalf of all large business." Moreover, he argued that this collective consciousness is ultimately made possible by a high level of demographic homogeneity among senior managers and directors and, most importantly, by overlapping board memberships. Common board appointments provide an opportunity for corporate leaders to "identify [their] shared interests" and thus develop a group identity (Useem, 1982: 211; see also Koenig and Gogel, 1981; Davis and Thompson, 1994; Palmer and Barber, 2001; Davis, Yoo, and Baker, 2003). In effect, through their service on corporate boards, top managers and other directors can become socialized into the normative expectations of the corporate elite (Palmer, 1983). These norms are thought to reflect the priorities of top managers (e.g., protecting managerial autonomy) because a majority of outside board members at large U.S. companies are themselves top managers at other large firms (Useem, 1982; Lorsch, 1989). Since the director selection process is typically dominated by the CEO and incumbent directors, boards are able to protect their interests further by restricting new recruitment to indi-

viduals likely to be sympathetic to managerial interests (Finkelstein and Hambrick, 1996; Mizruchi, 1996).

Since the late 1980s, the primary external threat to managerial autonomy has come from activist institutional investors, rather than the federal government (Davis and Thompson, 1994; Useem, 1993, 1996). Davis and Thompson (1994: 144) have described top managers and institutional investors as "contenders for corporate control." Institutional investors have exerted considerable pressure on boards of directors to exert more independent control over executive behavior and decision making (Westphal and Zajac, 1998). Yet several studies have shown that institutional ownership does not predict change in indicators of independent board control over management (e.g., Sundaramurthy, 1996; Westphal and Zajac, 1998; Kang and Sorensen, 1999). On one level, this apparent resistance to external demands for independent board control, which would effectively divide corporate leaders into separate groups of managers and controllers, can be attributed simply to the continued social cohesion of the corporate elite (Mills, 1956; Domhoff, 1970; Useem, 1984). From this perspective, corporate leaders have been socialized through their service on corporate boards to protect the autonomy and final decision-making authority of top managers (Useem, 1982, 1984), leading them to resist changes that would threaten that autonomy.

In contrast, modern perspectives on social control, which derive from a large body of research in sociology and anthropology, suggest that socialization processes alone are inadequate to ensure the social solidarity of large groups (Hechter, 1987; Coleman, 1994). In particular, when individuals have personal incentives to violate the collective interests of the group, socialization processes must be reinforced by social sanctions against group members who violate the collective interest. As Hechter (1987: 52) noted, without this kind of social control, "group solidarity is, at best, a chimera." In the context of corporate elites, given that individual directors have personal incentives to support governance reforms that threaten managerial autonomy, while still enjoying board support at their home companies, social solidarity of the corporate elite and attendant resistance to external threats to managerial autonomy require social sanctions against directors who participate in governance reforms. The social sanction we examine here is social distancing, a kind of informal ostracism.

Social Distancing

In general, social control involves processes in the social system that serve to counteract deviant tendencies, which refer to actions by individuals or subgroups that violate normative expectations of the larger social group or threaten the group's social integrity (Cohen, 1966; Gibbs, 1981; Ekland-Olson, 1982). Social control can vary from formal legal sanctions to relatively subtle informal sanctions (Black, 1984). Social distancing is a relatively informal kind of social control. There is an extensive literature on social distancing in anthropology (e.g., Gluckman, 1963; Merry, 1984), and it is also discussed by social theorists such as Coleman (1994), Gibbs

(1981), and Goffman (1963). As described in these literatures, social distancing is a kind of informal ostracism that occurs in response to social deviance by individual members or minority subgroups of a larger group or society. Individuals who experience distancing are not actually expulsed from the group, as in formal ostracism, but are instead informally excluded to some degree from the work of the group and from social interaction and association with other group members (Bogardus, 1959; Wood, 1974; Merry, 1984).

Social distancing involves a range of specific behaviors, or the withdrawal of behaviors, toward deviant group members. Specific aspects of social distancing are neglecting to ask the opinion or advice of deviant individuals in the process of group decision making (Barkow, 1974), not inviting them to informal meetings, or otherwise preventing them from participating in the group (Wood, 1974; Mahdi, 1986; Merry, 1984). More subtle aspects of distancing involve not socially validating deviant individuals' comments in discussion and not recognizing their other contributions to the group. Individuals who experience distancing have "less attention paid to their remarks" (Bogardus, 1959; Barkow, 1974: 7). Research has also shown how gossip among group members can be used as a subtle distancing mechanism (Gluckman, 1963; Noon and Delbridge, 1993). Group members may gossip about a third party with whom the deviant individual is not familiar, thus excluding him or her from the conversation. In the context of corporate boards, social distancing would manifest itself in such specific acts of avoidance and snubbing as neglecting to invite directors to informal board meetings, not asking their opinion or advice in formal meetings, not acknowledging or building on their comments in discussion, and engaging in exclusionary gossip whereby board members talk about other people and events with which the focal director is not familiar.

Although some anthropologists have described social distancing as a nearly universal response to deviant behavior in large groups (Zippelius, 1986), it has been shown to occur in varying degrees across groups and over time, depending on specific features of the group itself and the larger social context in which the group operates. There is considerable evidence that social distancing is more pronounced in response to deviant behavior in groups that are socially cohesive because of demographic homogeneity and/or network ties among members (Wood, 1974; Scott, 1976; Merry, 1984; Coleman, 1994). Normative expectations tend to be stronger in such groups, so that there is more implicit agreement about what constitutes deviant behavior. Moreover, Coleman (1994) noted that in cohesive groups, sanctioners are more likely to receive social support and positive reinforcement from other group members (implicitly or explicitly), not only because there tends to be stronger agreement about the deviant behavior but also because the higher level of social interaction in such groups affords more opportunity to support the sanctioner. This should encourage social sanctioning in the corporate elite, which has been shown in many studies to have a high level of social cohesion. Cohesion is enhanced not only by overlapping board memberships, and by the

"small world" character of the interlock network, in which the average number of links between any two directors in the network is very small (Davis, Yoo, and Baker, 2003: 17), but also by club memberships, school ties, and a persistently high level of demographic homogeneity (Domhoff, 1970; Zeitlin, 1974; Useem, 1984; Mizruchi, 1996; Zweigenhaft and Domhoff, 1998; Palmer and Barber, 2001). Coleman (1994: 310) described the potential for social sanctioning to operate in such cohesive networks as a kind of social capital, in that it protects the interests and integrity of the group by socially controlling deviant behavior (see also Merry, 1984).

Social distancing is also particularly likely to occur when group members can interact (or avoid interaction) with the deviant at the same time in a collective activity (e.g., in a board meeting) (Gluckman, 1963; Mahdi, 1986). In such contexts, distancing by each group member is positively reinforced by simultaneous distancing by others, thus socially affirming each sanctioner's behavior and reducing the social discomfort and risk to each group member. Coleman (1994) described social distancing in group contexts such as board meetings as an "incremental" social sanction, in that the required contribution to social control by each group member is relatively small (e.g., neglecting to ask the director's opinion in board meetings or not responding to his or her comments), but the additive effect across group members can be quite large (see also Goffman, 1963). At the same time, social distancing in such group contexts permits monitoring of each group member to ensure that members engage in distancing, and the presence of other group members tends to create social pressure to participate in distancing (Coleman, 1994). This allows the group to avoid what Coleman (1994: 282) referred to as the second-order public goods problem of sanctioning, whereby group members prefer to free-ride off sanctioning by others, reducing the total level of sanctioning by the group. Moreover, Goffman (1963: 48) and others have noted that in group contexts, social distancing, by reducing social interaction with the deviant, has a "sanitary function" of minimizing social influence by the deviant on other group members (see also Evens, 1975; Zippelius, 1986).

In addition, social distancing is more pronounced in the face of an external threat to the group's interests or social integrity. A significant external threat, whether real or imagined, has the effect of increasing in-group identification (Turner, 1987) and making normative expectations of the group more salient, thus increasing social sanctioning of group members who violate those expectations (Lauderdale et al., 1984; Merry, 1984). In the corporate context, widespread demands from institutional investors and other constituents for boards to exercise independent control over top managers constitute an external threat to the interests and social integrity of the corporate elite. Independent board control threatens not only the interests of members of the corporate elite, by limiting managerial autonomy and final decision-making authority, but also the social integrity of the corporate elite, by dividing them into separate groups of controllers and managers, given that top managers of large firms serve as outside directors at other large firms. Such conditions should foster in-group

identification among members of the corporate elite and thus increase the likelihood of social sanctioning of individual directors who appear to have succumbed to external pressure to participate in independent control over top managers.

Director participation in elite-threatening actions. In this study, we examine director participation in four specific actions that have been advocated by institutional investors and that threaten the interests and social integrity of the corporate elite. First, institutional investors have advocated changes in board structure that increase board independence from management, thus increasing the board's capacity to engage in independent control over executive decision making on behalf of shareholders. Perhaps the most widely advocated change in board structure is separating the CEO and board-chair positions, so that the CEO no longer holds the leadership position on the board (Useem, 1993). Separating the CEO and board-chair positions has the explicit purpose of enabling the board to exercise independent control over management, thus limiting the CEO's autonomy and final decision-making authority. Moreover, empirical studies have linked CEO/board-chair separation to reductions in CEO perquisites and compensation and an increased risk of CEO dismissal during periods of low profitability or poor stock performance (for a review, see Finkelstein and Hambrick, 1996; Ellstrand, Tihanyi, and Johnson, 2002).

Another change in board structure widely advocated in recent years is the creation of independent board nominating committees. This reform reflects the widespread perception among academics, institutional investors, and other observers that CEOs' control over the director selection process is a primary obstacle to greater board independence from management (Lorsch, 1989; Black, 1998; Useem, 1996). Research has shown that CEOs typically play a dominant role in identifying and screening director candidates and that they tend to prefer candidates who are personal friends, demographically and attitudinally similar to them, or otherwise sympathetic to their preferences (Fredrickson, Hambrick, and Baumrin, 1988; Lorsch, 1989; Zajac and Westphal, 1995). Given that nominating committees are responsible for the selection of board members, institutional investors have pressured boards to make these committees formally independent of management to reduce CEOs' control over the director selection process, either by creating a new nominating committee of outsiders or by removing the CEO and other insiders from the existing committee. Although little research has directly examined the consequences of independent nominating committees, there is some qualitative evidence that such committees do reduce CEOs' control over director selection (Vance, 1983; Lorsch, 1989).

Another action that clearly conflicts with the preferences of top executives is dismissing the CEO. In recent years, institutional investors have regularly criticized boards for their apparent reluctance to fire CEOs of poorly performing firms, frequently attributing this reluctance to a lack of independence from management (Daily and Dalton, 1995). In fact, there is considerable evidence in the governance literature that independent boards are more likely to fire CEOs of firms

that perform worse than competitors in the same industry (Weisbach, 1988; Boeker, 1992; see Finkelstein and Hambrick, 1996 for a review). Thus, academics and investors alike have suggested that dismissal of a CEO reflects independent board control over management.

Institutional investors and other stakeholder groups have also heavily criticized takeover defenses such as poison pills, which are viewed as devices by which managers seek to protect themselves from the discipline of the market for corporate control (Coffee, 1988; Davis and Thompson, 1994). Accordingly, boards have been pressured in recent years to repeal corporate takeover defenses (Useem, 1993; Feinberg, 1998, 1999; *Investor Relations Business,* 1998). On one level, takeover defenses help to insure the positions of top managers, given that hostile takeovers often lead to changes in the management ranks. In addition, poison pills protect the decision-making autonomy of top managers, to the extent that managers would otherwise have to follow a particular strategic course to avoid a hostile takeover. Thus, the repeal of poison pills is also viewed as a strong indication of independent board control over management (Sundaramurthy, Mahoney, and Mahoney, 1997; Fulman, 1998). Moreover, several studies have shown a (negative) link between independent board control and poison pills (Mallette and Fowler, 1992; Sundaramurthy, Mahoney, and Mahoney, 1997).

Each of these specific changes in board structure, leadership, and takeover protection provides a concrete indicator of greater independent board control over management. In addition, each of these changes is highly visible to the media, institutional investors, and ultimately to leaders of similarly large firms. The visibility of these changes is due partly to media exposure and partly to the practices of institutional investors: when a board takes one or more of these actions, institutional investors routinely use them as an exemplar or reference in pressuring other firms to make similar changes (*Council of Institutional Investors,* 1989; Useem, 1996). Accordingly, boards that make these changes not only threaten the interests of top managers at the adopting companies but also impose negative externalities on managers of other companies by increasing the pressure on their boards to make similar changes. Thus, our theoretical argument would suggest that directors who participate in these actions on particular boards should become the target of social sanctioning by directors on other boards. This discussion suggests the following initial hypothesis on the effect of director participation in elite-threatening changes in corporate governance, including (a) separation of the CEO and board-chair positions, (b) creation of an independent board nominating committee, (c) revocation of a poison pill, and (d) dismissal of a CEO, on social distancing:

Hypothesis 1: Directors who participate in elite-threatening changes in corporate governance at particular boards are more likely to experience social distancing on other boards.

Director status in the corporate elite. While the literature on social control suggests that social distancing is a typical response to deviant behavior in cohesive groups, there is evi-

dence from both the anthropological and sociological literatures on social control that individuals are less likely to be sanctioned for deviant behavior when they have relatively high status in the group (Goffman, 1963; Blau, 1964; Bailey, 1971; Hills, 1971; Giordano, 1983; Coleman, 1994). In this context, status refers to individuals' social ranking or the esteem accorded to them in relation to other members of the corporate elite (Homans, 1950; Whyte, 1955; Mills, 1956; Phillips and Zuckerman, 2001). Social theorists have offered two explanations for why individuals with high status are less likely to be sanctioned for deviating from group norms. Coleman (1994), Evens (1975), and others have argued that the cost to individuals of engaging in social distancing is contingent on the status of the target, the individual to be sanctioned. Individuals derive more social capital from continued relations with high-status group members. Given that social distancing by definition involves a reduction in relations with the target, individuals experience a relatively large loss of social capital by sanctioning a high-status group member. To the extent that high-status directors tend to hold board appointments and/or top executive positions at prestigious companies and thus influence the appointment of managers and directors of those companies (Useem, 1984; Finkelstein, 1992), continued relations with high-status directors provide a valuable source of social capital by increasing access to prestigious positions. Board members may be reluctant to compromise their social capital by distancing themselves from these high-status directors.

Social psychological perspectives on deviance also suggest that people tend to perceive deviant behavior by high-status persons as less deserving of sanctions. Deviant actions by high-status group members are more likely than similar actions by low-status members to be discounted as anomalous, even when they have an identical record of conformity or non-conformity (Swigert and Farrell, 1977; Giordano, 1983; D'Aveni, 1990). Moreover, people's attributions about deviant behavior are biased in favor of high-status actors (Kelley and Michela, 1980; Giordano, 1983; D'Aveni, 1990). While people generally underestimate the influence of external constraints and overestimate the influence of personal disposition on the behavior of others, this bias appears to be reversed in making attributions about deviant behavior by high-status group members: people overestimate the extent to which deviant behavior by high-status persons occurs due to external constraints (e.g., pressure from stakeholders) and underestimate the extent to which such behavior reflects the personal preferences of the deviant. As a result, high-status group members are viewed as less deserving of social distancing in response to deviant behavior. In explaining such biases, several theorists have suggested that people are more likely to identify with high-status group members, or, alternatively, that high-status members come to represent or personify the group, so that sanctioning such persons compromises group members' personal and/or group identity (Hollander, 1958; Blau, 1964). In effect, social distancing of high-status members entails psychic costs to group members beyond the more tangible, career-related costs emphasized by Coleman (1994). This discussion suggests the following hypothesis:

Hypothesis 2: The greater a director's status in the corporate elite, the less positive the effect of the director's participation in elite-threatening changes in corporate governance at particular boards on the extent to which the director experiences social distancing on other boards.

Deterring Subsequent Participation in Elite-Threatening Actions

A primary function of social distancing, as a form of social control, is to deter deviant actors from continuing to participate in deviant activities in the future (Gibbs, 1981). Research on social control has been largely concerned with comparing the effectiveness of material sanctions with relatively informal social sanctions, such as social distancing, in deterring continued deviance in large groups. This is an interdisciplinary literature that includes historical case studies (e.g., Zippelius, 1986), comparative analysis of ethnographic studies (e.g., Scott, 1976), social surveys of conformity and deviance (Tittle, 1980), and laboratory experiments in social psychology (Kiesler and Kiesler, 1969; Hollinger and Clark, 1982). Reviews of this literature consistently suggest that informal social control, such as social distancing, is a highly effective means of reducing "recidivism" of deviant behavior, or the propensity to participate in deviant actions repeatedly (Black, 1984; Tittle, 1995). Social surveys and laboratory studies have tended to suggest that the withdrawal of social support or the loss of respect among friends and acquaintances in response to deviant behavior is a strong (negative) predictor of future deviance, while sanctions that involve the loss of material resources or group benefits have significantly weaker effects in reducing recidivism (Tittle, 1980, 1995; Hollinger and Clark, 1982). Similarly, Baker (1984) reported the widespread use of an effective type of informal social control to check opportunism by buyers on the trading floor in a securities market, despite the existence of formal controls for the same purpose. While floor brokers are formally supposed to sell to the first person who responds orally to their offer, when they observed recurring opportunistic behavior from a buyer, they "simply never heard the opportunist as the first to respond," driving the sanctioned buyer either to adhere to trading norms or to attempt trading with a different broker (Baker, 1984: 782). These informal sanctions were reportedly effective in controlling deviance on the trading floor.

Theory and research in social psychology suggests that people have a fundamental motive to seek inclusion and to avoid exclusion from social groups that are important to their self-identities (e.g., James, 1890; Ainsworth, 1989; Baumeister and Leary, 1995; Williams, 2001). Research has shown that social exclusion results in a variety of aversive outcomes for individuals, including emotional distress, anxiety, and even decrements in physical health (for a review, see Twenge, Catanese, and Baumeister, 2003). Conversely, social inclusion has been shown to enhance self-esteem. In fact, Leary et al. (1995) have found compelling evidence that self-esteem can be conceived of as a regulatory system that continuously monitors one's inclusionary status in social groups by attending to interpersonal cues that connote exclusion and motivates behavior to restore such status when threatened. Thus,

people tend to be highly attuned to even subtle indications that they are the target of social distancing, find this change in social status psychologically aversive, and are highly motivated to engage in behavior that will restore social inclusion. Accordingly, theory and research in social psychology can help explain consistent evidence in the social control literature, which derives primarily from sociology and anthropology, that social distancing is highly effective in deterring continued deviant behavior.

These theoretical perspectives assume that social distancing is a temporary sanction that will be lifted over time in response to "good behavior," or an extended period of time without "bad behavior." This assumption is supported by empirical evidence, which suggests that social distancing, unlike more extreme forms of ostracism such as expulsion from the group, tends to be temporary: it is closer to purgatory than banishment (Gibbs, 1981; Zippelius, 1986). Moreover, particular instances of deviant behavior are likely to fade from the group's collective memory over time, so that social distancing of an individual would diminish if he or she subsequently refrained from continued participation in such behavior. Beyond the psychological effects of social distancing itself, the literature on social distancing also suggests that the effect of social sanctions is amplified further by the "fear of gossip," or the fear that other group members are talking about one's loss in social status (Gluckman, 1963: 308; Black, 1984; Coleman, 1994).

Social distancing should be effective in deterring directors from participating in actions that might be viewed as deviant by other corporate executives. Directors who experience social distancing can be expected to avoid future participation in elite-threatening actions in order to restore social acceptance by their peers. It seems less likely that directors would experience complete ostracism (i.e., dismissal from a board) in response to deviant behavior, not only because it is less effective than informal ostracism as a form of social control but also because it does not permit re-inclusion of the deviant following a period of conforming behavior. To the extent that there is perceived to be a scarcity of director talent, boards may be reluctant to dismiss deviant directors without giving them an opportunity to reform their behavior. In addition, while the costs to individual directors of engaging in informal ostracism are relatively low, as discussed above, the costs to an individual of participating in the firing of a deviant director are significantly higher. After being fired, a director may be more likely to criticize the board publicly, potentially harming the reputations of other board members.

Hirsch's (1982) interviews with 70 directors and executives of Fortune 500 companies suggest that changes in corporate governance such as those examined here require consensus support among outside directors (see also Lorsch, 1989). Hirsch reported that boards almost always reach unanimous agreement in making major policy decisions; if an initiative is to go forward, any initial reservations that directors have about a decision are typically worked out informally in advance of formal board meetings. Thus, directors who wish to avoid participating in elite-threatening changes may be

able to do so by simply withdrawing their support for such changes. This suggests the following hypothesis:

Hypothesis 3: Directors who experience social distancing at particular boards will participate in fewer elite-threatening changes in corporate governance subsequently on other boards.

METHOD

Sample and Data Collection

The American corporate elite is typically defined as "senior managers and directors of large corporations" (Useem, 1982: 200; Davis, Yoo, and Baker, 2003), and prior research on the corporate elite has defined large U.S. firms to include Fortune and/or Forbes 500 companies. Our sample frame included all outside directors at companies listed in the Forbes 500 index of industrial and service firms, which heavily overlaps with the Fortune 500. In analyses not shown here, we measured participation in elite-threatening actions at (a) Fortune 500 firms and (b) Fortune or Forbes 500 firms and found the hypothesized results unchanged. We excluded smaller firms because a change in board structure that restricted managerial autonomy at a small firm would not constitute an *elite*-threatening action.

To measure social distancing, we sent survey questionnaires in January 1999 to all outside directors in the sample frame. In addition, we sent separate questionnaires to CEOs of the same firms to assess interrater reliability. We took several measures to ensure the highest possible response rate to the survey (Linsky, 1975; Groves, Cialdini, and Couper, 1992; Fowler, 1993; Westphal, 1999): (1) feedback from the pretest was used to streamline the questionnaire, making it more appealing to complete; (2) we emphasized in the cover letter that the survey was part of a larger, ongoing research project on corporate governance that included a series of surveys conducted by faculty in several major business schools and that hundreds of top managers and directors had responded to prior surveys; (3) a second wave of questionnaires was sent to all nonrespondents three weeks later, and a third wave of questionnaires was sent to directors at companies where no director had responded to the first two waves; (4) the third wave of questionnaires was accompanied by an endorsement and appeal for participation by directors at a major management consulting firm, on behalf of the researchers. We received responses from 1,147 directors and 206 CEOs, which translates to response rates of 42 percent and 41 percent, respectively. After excluding respondents with missing archival data, the sample included responses from 1,098 directors (40 percent) and 197 CEOs (39 percent). From 417 firms, at least one outside director responded (83 percent of the sample frame). We also sent a follow-up survey in February 2001 to all outside directors at companies in the sample frame. This survey included questions about director support for elite-threatening actions during the two-year period following the initial survey. The sample included 1,057 directors (39 percent) responding for 421 firms (84 percent of firms in the sample frame).

We tested for nonreponse bias by comparing the characteristics of respondents and nonrespondents, using the Kolmogorov-Smirnov two-sample test. This determines whether the distribution of respondents is significantly different from that of nonrespondents on a given variable. The results suggested that respondents and nonrespondents are not significantly different with respect to archival variables examined in the study. For instance, there were no significant differences in director tenure on the board (i.e., the board for which the director responded), stock ownership, number of board appointments in the sample frame, common board appointments with other directors on the board, demographic distance from other directors and the CEO, or director participation in elite-threatening actions) for either the 1999 or 2001 samples (these variables are discussed further below); *p*-values ranged from .196 to .933.

We obtained data on director and board characteristics and ownership from *Standard and Poor's Register of Corporations, Directors, and Executives; The Dun and Bradstreet Reference Book of Corporate Management; Who's Who in Finance and Industry;* and corporate proxy statements. Data on poison pills and shareholder resolutions were provided by the *Investor Responsibility Research Center (IRRC).* We obtained data on firm size and performance from COMPUSTAT and Compact Disclosure.

Qualitative study. To corroborate certain assumptions underlying our theoretical arguments and the findings of our quantitative analysis, we included a limited qualitative component in our study consisting of in-depth interviews with a sample of individuals who sat on at least one board in the population of Forbes 500 companies. The first author conducted a total of 42 telephonic interviews in two waves. Appointments for the interviews were set in advance, and each interview lasted between 15 and 30 minutes. Prior to conducting interviews in each wave, we developed an interview guide that included a checklist of issues to be discussed and a list of specific questions. The interviewer followed this guide to ensure that all issues were addressed and that questions were worded consistently across interviews, although the discussions themselves were unstructured. The interviewees were not informed about the specific hypotheses we wished to test, to avoid biasing their responses. The respondents who were interviewed during the qualitative phase were excluded from the sampling frame for the survey.

The first wave, which consisted of 23 in-depth interviews, was conducted when the survey measures and instrument were being developed. The purpose of these interviews was to corroborate certain assumptions underlying our theoretical arguments. Interviewees were asked open-ended questions about how a director's relations with other directors would be affected if he or she sat on boards that made changes in board structure or other changes that indicated independent board control over management, including the specific changes examined in the study. In their responses, the directors interviewed mentioned the specific mechanisms of social distancing that are documented in the literature and that we measured in the survey (e.g., fewer invitations to

meetings, less attention paid to remarks in meetings, and less solicitation of input), which provided initial support for our theoretical arguments. During these interviews, we also pretested the survey instrument to check whether each question was interpreted as expected and improved the wording of the questions accordingly. We made significant revisions to the instructions and format of the survey in response to feedback from the respondents.

A second wave of in-depth interviews, which included 19 of the original 23 interviewees, was conducted after we completed the quantitative analysis, primarily to corroborate the findings. In these interviews, we asked the interviewees about specific assumptions that underlie our theoretical perspective. For instance, our theoretical argument assumes that individual directors are held responsible for board-level actions that indicate independent board control over management and that directors who have experienced social distancing can prevent, or reduce the likelihood of, future occurrence of such actions. To corroborate our supportive quantitative findings, we asked interviewees explicitly about the culpability of individual directors for actions taken by a board that indicate independent board control over management. Other assumptions we sought to corroborate through these interviews included (1) institutional investors do not force companies in which they invest to initiate board reforms, (2) directors who participated in changes that indicated independent board control over management over three years ago, but not since, would not continue to experience social distancing, and (3) directors who experienced social distancing would tend to find it offensive.

Measures

Social distancing. To measure social distancing, we adapted questionnaire items from Hollinger and Clark's (1982) measure and developed additional questions to tap dimensions of distancing that have not been previously assessed in large-sample research. We used multiple response formats for the survey items to reduce response bias, including items with a conventional 5-point Likert-type format, agree-disagree items, and items that ask about the number of interactions of a particular kind over a specified period of time (when appropriate).

The social distancing scale includes eight items, shown in table 1, that are intended to capture the different aspects of distancing that have been identified in the sociological and anthropological literature. To enhance reliability, we obtained assessments of the extent of social distancing experienced by individual directors from (1) the individual directors themselves and (2) other directors on the board on which the individual director served. Thus, outside directors responded to questions relating to social distancing they themselves experienced, which provided one measure of social distancing, i.e., *social distancing as reported by focal director,* as well as distancing experienced by other directors, which provided the second measure of social distancing, i.e., *social distancing as reported by other outside directors.* For all analysis involving social distancing reported by other directors, when responses

Table 1

Social Distancing Scale Items and Interrater Reliability Assessment

Social Distancing Scale Items*		Agreement between Focal & Other Outside Directors		Agreement between Focal Director & CEO	
Respondents: Focal directors	Respondents: Other outside directors on the board and CEO	Observed (expected)	Kappa ($Z^{\dagger}$)	Observed (expected)	Kappa ($Z^{\dagger}$)
In the past twelve months, to what extent have directors asked your opinion on strategic issues in board meetings? [Not at all . . . somewhat . . . very much so]‡	For each of the directors listed below please indicate to what extent during the past twelve months directors have asked the opinion of this person on strategic issues in board meetings. [Not at all . . . somewhat . . . very much so]‡	96.85% (65.23%)	.91 (44.57)	94.00% (66.74%)	.82 (28.64)
How many times have other directors or the CEO asked for your input on a strategic issue in board meetings? [Very often . . . somewhat . . . not at all]‡	Directors seem reluctant to solicit the opinion of this individual in board meetings. [Strongly disagree . . . neither agree nor disagree . . . strongly agree]	94.97% (58.35%)	.88 (38.56)	94.67% (58.33%)	.87 (27.04)
[For the most recent twelve-month period] To what extent do directors tend to build on your comments in board meetings? [Not at all . . . somewhat . . . very much so]‡	For each of the directors listed below please indicate, for the most recent twelve-month period, to what extent do directors tend to build on this person's comments in board meetings. [Not at all . . . somewhat . . . very much so]‡	94.78% (64.52%)	.85 (41.03)	96.00% (62.04%)	.89 (26.85)
Other directors tend to expand on my comments and suggestions in board meetings. [Strongly disagree . . . neither agree nor disagree . . . strongly agree]‡	Other directors tend to expand on this person's comments and suggestions in board meetings [Strongly disagree . . . neither agree nor disagree . . . strongly agree]‡	94.15% (63.08%)	.84 (39.09)	95.50% (62.40%)	.88 (28.20)
In the past twelve months, how many times has the CEO invited you to informal meetings that are separate from formal board meetings? [_____ times]‡§	For each of the directors listed below please indicate how many times in the past twelve months this person has attended informal meetings arranged by the CEO (as distinct from formal board meetings). [_____ times]‡‖	94.80% (58.35%)	.78 (34.17)	88.93% (57.30%)	.74 (22.76)
Over the past twelve months, how many meetings have you been invited to outside of formal board or committee meetings? [_____ meetings]‡§	For each of the directors listed below please indicate how many meetings over the past twelve months this person has attended outside of formal board or committee meetings. [_____ meetings]‡‖	91.83% (58.32%)	.80 (35.25)	91.87% (58.33%)	.80 (24.96)
[For the most recent twelve-month period] To what extent do directors talk about other people with whom you are not familiar? [Not at all . . . somewhat . . . very much so]	For each of the directors listed below please indicate, for the most recent twelve-month period, to what extent directors talk about people with whom this person would probably not be familiar? [Not at all . . . somewhat . . . very much so]	92.02% (62.88%)	.79 (38.23)	93.45% (64.58%)	.82 (25.92)

(Continued on next page)

Table 1 *(Continued)*

Social Distancing Scale Items*		Agreement between Focal & Other Outside Directors		Agreement between Focal Director & CEO	
Respondents: Focal directors	Respondents: Other outside directors on the board and CEO	Observed (expected)	Kappa ($Z^{\dagger}$)	Observed (expected)	Kappa ($Z^{\dagger}$)
In informal conversations before and after board meetings, directors often talk about people or events on other boards that I am not familiar with. [Strongly disagree . . . neither agree nor disagree . . . strongly agree]	In informal conversation with other directors, we often discuss people or events with which this director is not likely to be familiar. [Strongly disagree . . . neither agree nor disagree . . . strongly agree]	92.20% (62.43%)	.79 (38.65)	88.90% (60.98%)	.72 (23.23)
Overall Kappa			.83 (38.55)		.82 (26.43)

* We calculated kappas for the three continuous-scale items by dividing the values for each of these items into quartiles.

† Z statistics for all kappas are statistically significant.

‡ These items were reverse scored so that higher values signify greater distancing.

§ Expressed as a percentage of the total number of informal meetings held over this period, and subtracted from one, so that higher values indicate greater distancing. In the primary analyses, we developed this measure using the number of informal meetings reported by the focal director because analyses of interrater reliability showed a high level of agreement between the number of meetings reported by the CEO and the number of meetings reported by the individual director, regardless of whether the director was invited to all the meetings, i.e., directors tended to become aware of meetings that they were not invited to.

‖ Directors do not necessarily know whether the CEO invited other board members to informal meetings. Thus, the respondents were simply asked to report the number of such meetings attended by each director. In any event, analyses of interrater reliability showed a high level of agreement between the number of meetings a director was invited to attend (self-reported) and the number of meetings he or she reported as having attended (according to another director on the board or the CEO), i.e., directors tended to consistently attend informal meetings when invited by the CEO.

were available from more than one director, one set of responses was randomly selected.

We conducted factor analysis on the survey items using the iterated principal factors method. One analysis included the indicators of distancing as reported by the focal director, and a second analysis included the indicators of distancing as reported by other directors. Both analyses also included survey indicators of a control measure, challenging behavior, described below. In each analysis, the distancing items loaded on one factor as expected: loadings for each of these items were greater than .5 on the same factor and less than .2 on the other factors. Cronbach's alpha was .91 for each scale, indicating high inter-item reliability (Nunnally, 1978). We estimated factor scores using the Bartlett method.

To assess interrater reliability, we compared social distancing as reported by a given director (A) with (1) social distancing (of director A) as reported by other directors (N = 1021) and (2) social distancing (of director A) reported by the CEO (N = 505). We assessed interrater reliability using the weighted kappa coefficient, which corrects for the expected level of chance correlation between raters and weights agreement by the extent of divergence between raters. Values above .75 are thought to indicate excellent agreement, and values between .4 and .75 indicate fair to good agreement (Fleiss,

1981). As shown in table 1, kappa coefficients for the level of agreement between outside directors and the CEO are greater than .75 for all the survey items but two, and those two items are still in the range of good agreement; moreover, the overall kappa for the scale is .82. Kappas for the level of agreement between outside directors are all greater than .75, with an overall kappa of .83.

We included questions in the survey to test our assumption that directors would tend to be aware of elite-threatening actions on other boards. For instance, we randomly selected one company that had repealed a poison pill in the last two years and two companies that had not and asked directors to indicate which company had repealed a pill. Similarly, we asked directors to identify CEOs at other companies who had lost the board-chair position.

Status in the corporate elite. We used four indicators of director status in the corporate elite. First, scholars have long viewed the number of board appointments held by a director as an indicator of status in the corporate elite (e.g., Mills, 1956; Useem, 1984; D'Aveni, 1990; Finkelstein, 1992; Palmer and Barber, 2001). High-status individuals are more likely to be invited to sit on boards of large companies, so that the number of board seats held by a director reflects his or her preexisting status (Useem, 1984; D'Aveni, 1990). In addition, directorships are a source of status in that they provide access to valuable information and influence over management and director appointments (Davis, 1991; Palmer and Barber, 2001). Directors who serve as CEOs of large companies are also thought to have particularly high status in the corporate elite (Mills, 1956; Giddens, 1972; Useem, 1984). The selection of an individual as CEO of a large company certifies that person's unique expertise, competence, and contacts. Moreover, CEOs acquire unique experience with strategic issues and access to powerful people that enhances their credibility in board discussions (Lorsch, 1989). A dummy variable was coded as 1 if the focal director was CEO of a company in the Forbes 500 listing of the largest U.S. companies.

A director's status is also affected by the prestige of his or her primary employer, as well as the prestige of his or her outside board appointments (Finkelstein, 1992). In the primary analysis, we used the stock rating, obtained from Standard and Poor's Stock Survey, of the director's primary employer as an indicator of employer prestige. We used the average stock rating of firms where the individual served as outside director as a measure of prestige derived from board appointments, following Finkelstein (1992), who provided evidence of the validity of this measure as an indicator of status in the corporate elite (i.e., this measure loaded on the same factor as several other archival and perceptual measures of status). In additional analyses, we used (1) profitability (return on assets), (2) total stock returns, and (3) firm size as indicators of employer prestige and the prestige of board appointments (Fombrun and Shanley, 1990), and the results presented below were substantively unchanged. All of these variables were measured for the year prior to the survey.

Finally, educational background has long been viewed as a primary indicator of status in the corporate elite. Attendance at an exclusive undergraduate school (e.g., an Ivy League school) is indicative of an upper-class background (Domhoff, 1970), and social status at birth has been shown to provide an important basis for status in the corporate elite (Mills, 1956; Useem and Karabel, 1986; Palmer and Barber, 2001). Moreover, attendance at an elite undergraduate or business school "socializes students into upper-class norms and plugs them into elite social networks," facilitating their acceptance into the inner circle of corporate elites (Useem and Karabel, 1986; Palmer and Barber, 2001: 83). Following Finkelstein (1992) and Palmer and Barber (2001), we measured elite education using Useem and Karabel's (1986) listing of the most prestigious undergraduate institutions and MBA programs, which in turn is based on earlier work by Coleman (1973) and Pierson (1969). A dummy variable was coded as 1 if a focal director had an undergraduate or MBA degree at an institution on Useem and Karabel's list.

We conducted factor analysis on the four measures of status in the corporate elite (number of board appointments, whether CEO of a Forbes 500 company, stock rating of primary employer, and elite education); this analysis also included survey indicators of director participation in elite-threatening actions, discussed below. We used the iterated principal factors method. The four measures loaded on one factor, with loadings of .5 or greater on the same factor and less than .2 on the other factors. Cronbach's alpha was .84, indicating acceptable reliability (Nunnally, 1978). We used the Bartlett method to estimate factor scores.

Participation in elite-threatening actions. We created two measures of prior participation in elite-threatening actions: an archival measure and a survey measure. In both cases, we examined director participation in four changes in corporate governance that threaten the interests of top managers: separation of the CEO and board-chair positions, creation of an independent board nominating committee, repeal of a poison pill, and CEO dismissal. For the archival measure, we first created dichotomous variables to indicate whether or not each of these changes occurred during the two-year period prior to the survey date. CEO/board-chair separation was coded as 1 if the board-chair position was reallocated from the CEO to an independent director during the two-year period. In the primary analyses, we excluded cases of temporary separation that sometimes occur following a CEO succession in which the prior CEO is appointed as chairman for a period of time to assist with the transition to new leadership (Vancil, 1987). We created a dichotomous variable to indicate the creation of an independent nominating committee, coded as 1 if the board had a nominating committee composed exclusively of outsiders in the current year and either did not have a nominating committee two years earlier or had a committee that included one or more insiders; in all cases in which insiders were removed from the committee, the CEO was one of the directors removed.

We also created a dichotomous variable to indicate whether or not a board repealed a poison pill during the prior two-year

period. We excluded the few cases in which pills were repealed following a shareholder proposal and passing vote because this process effectively bypasses the board. We also excluded the repeal of takeover defenses that require a shareholder vote for renewal. Data on CEO dismissal were obtained from the survey and validated with archival data. Respondents were asked to list changes in leadership or governance that indicate independent board control over management made by the focal board and other boards on which they served as outside director during the prior two years. Using these data, we created a variable to indicate CEO dismissal, coded as 1 if respondents indicated that the CEO was replaced during the prior two years and that this change indicated independent board control over management. We were able to assess interrater agreement regarding CEO dismissal for 84 percent of companies in the sample frame. Analysis showed a very high level of interrater agreement on this variable (94 percent). We also validated this measure using Parrino, Sias, and Starks' (2003) procedure for identifying cases of CEO dismissal with archival data. All cases of CEO dismissal that we identified from the archival data had been identified by at least one survey respondent as a change in CEO that indicated independent board control over management.

Our theoretical argument does not suggest that the effect of participating in any one of these changes would be qualitatively different from the effect of participating in the others. Thus, in the primary analyses, we developed an index of director participation in these changes by calculating the number of elite-threatening actions implemented by boards that the individual served on (as an outside director) during the prior two-year period. The index based on archival measures was calculated as:

$$\sum_{y=t-2}^{t-1}\left[\sum_{b=1}^{N}(S^{a}_{y,b} + I^{a}_{y,b} + P^{a}_{y,b} + D^{a}_{y,b})\right]$$

where S^a indicates CEO/board-chair separation, I^a indicates creation of an independent nominating committee, P^a indicates repeal of a poison pill, and D^a indicates CEO dismissal at the N boards on which the focal individual served as outside director in year y (t indicates the time of the survey). In additional analyses, we developed separate measures of participation in elite-threatening actions for each of the four changes (i.e., x_1 = participation in CEO/board-chair separation, x_2 = participation in creation of an independent nominating committee, x_3 = participation in poison pill repeal, and x_4 = participation in CEO dismissal). As discussed further below, the effects of each of these variables were consistent with effects of the overall participation index. In another set of analyses, we found that the hypothesized results were substantively unchanged when participation was observed over a three-year period (data on dismissal were only available for the two-year period). We did not examine participation over longer time periods because our theoretical perspective suggests that social distancing, which functions as a kind of social control to deter actions that violate group interests and

norms, should be lifted after a protracted period of normative behavior (Gibbs, 1981; Zippelius, 1986). As discussed further below, we also controlled for prior elite-threatening actions at the focal firm in models of social distancing.

To test hypothesis 3, we developed a dichotomous measure of subsequent participation in elite-threatening actions based on archival data, coded as 1 if one or more of the elite-threatening actions discussed above occurred on a particular board (other than the focal board) where the focal individual served as director during the subsequent two-year period. The unit of analysis is the director-firm.[1] We used the product-term approach to test interactions between prior participation in elite-threatening actions and director status (Jaccard, Turrisi, and Wan, 1990). The independent variables were centered to avoid multicollinearity.

We also developed a survey measure of prior participation in elite-threatening actions. As noted above, respondents were asked to list specific actions taken by the board during the prior two years that indicate independent board control over management (including appointment of an independent board chair, repeal of a poison pill, or another change in leadership or governance that indicates independent board control). They were then asked to assess the extent to which each outside director on the board supported (or opposed) each of the changes that were listed. Specific questions included "To what extent did [the director] support [the particular change]?"; "To what extent did [the director] make it clear that they were against this change?" (reverse scored); and "The director was in favor of this change" (agree/disagree). Inter-item reliability of this scale was adequately high (alpha = .90). There was also evidence for interrater reliability for the subsample of directors whose support for elite-threatening actions was rated by two or more board members (N = 945); the overall kappa for the scale was .81. Factor analysis showed that items loaded on one factor as expected, with loadings for each item greater than .5 on the same factor and less than .2 on the other factors (see prior discussion for details on our factor analysis). Factor scores in this case indicate a director's support for a particular elite-threatening action at a particular board. As our primary survey measure of a director's total prior participation in elite-threatening actions, we developed an index of participation based on survey measures that parallels the archival measure of prior participation above:

$$\sum_{y=t-2}^{t-1}\left[\sum_{b=1}^{N}(S^s_{y,b} + I^s_{y,b} + P^s_{y,b} + D^s_{y,b})\right]$$

where S^s is the director's perceived level of support for a CEO/board-chair separation (i.e., the factor score for that particular change), I^s is the director's perceived level of support for an independent nominating committee, P^s is the director's perceived level of support for repeal of a poison pill, and D^s is the director's perceived level of support for CEO dismissal at the N boards on which the focal individual served as outside director in year y (t again indicates the time of the survey). This measure essentially weights elite-threatening actions at

1
Unlike the independent measures of participation, which are aggregated across all boards on which the focal director sits, this variable was limited to the focal firm. Given that the occurrence of multiple changes at a particular board was relatively rare, we used a dichotomous measure of subsequent participation in elite-threatening actions rather than a count measure; however, in separate analyses, we estimated the number of elite-threatening actions on a particular board where the focal individual served as director, and the hypothesized results were unchanged. Data on CEO dismissal during the subsequent two-year period were obtained from the follow-up survey distributed in 2001. We again found a very high level of interrater agreement about the occurrence of dismissal (93 percent).

companies where the individual served as director by the individual director's level of support for the changes (as perceived by other directors). In separate analyses, we used the *average* level of director support for elite-threatening changes and found the results were substantively unchanged. Moreover, we used data from the follow-up survey to develop a measure of *subsequent* participation in elite-threatening actions. Analyses again showed acceptable inter-item reliability (alpha = .88) and interrater reliability (kappa = .84) for the scale. This measure gauges the extent to which an individual director was perceived to have supported elite-threatening actions at a particular board where he or she served as director during the two-year period following the initial survey.

Control variables. We controlled for a number of factors that could influence social distancing and/or subsequent participation in elite-threatening actions. First, social distancing is sometimes used to marginalize individuals who are not accepted as in-group members (Merry, 1984). In the context of corporate boards, one indicator of in-group status on a particular board is demographic similarity between a director and other board members. Thus, we controlled for *demographic dissimilarity*, measured as a composite index of dissimilarity between the focal director and other members of the board on four characteristics: age, tenure on the board, functional background (cf. Hambrick and Mason, 1984), and educational background (i.e., attendance at an elite school). Age and tenure dissimilarity were based on Euclidean distance measures, and measures of dissimilarity in functional background and educational background were based on the squared proportion of directors who had the same background as the focal director. We also controlled for *common board ties* between the focal director and other outside directors on the board (i.e., the number of other boards where both the focal director and another director from the board had an appointment), which can be a source of in-group status on the board, thus possibly reducing the likelihood of social distancing. Directors may also be insulated from social distancing to the extent that they have a large ownership stake in the focal company or relatively long tenure on the focal board. Thus, we controlled for *stock ownership by the focal director,* measured as the number of common shares held by the director divided by total outstanding common stock, as well as *director tenure* on the board, measured in years since appointment.

Social distancing may also be directed toward persons who violate norms of conduct *on the focal board* by engaging in behaviors that threaten the preferences of top managers there. The survey included a three-item scale that measured the propensity of individual directors to challenge the CEO's decisions and preferences in meetings of a particular board (alpha = .87). Factor scores for this scale were included as a control in models of social distancing (*challenging behavior*). We also controlled for the number of elite-threatening actions at the focal firm over the prior two years (*prior elite-threatening actions–focal firm*), given that directors may be less prone to engage in social distancing of an individual who threatened management control at another firm when the focal board

has recently implemented elite-threatening actions. Moreover, in modeling subsequent participation in elite-threatening actions, we controlled for the average level of social distancing at boards where the focal director had an appointment. Directors who participate in social distancing and who are exposed to social distancing of other directors may be deterred from participating in elite-threatening changes on other boards (*direct exposure to social distancing*). Directors may be more likely to hear about cases of social distancing when they sit on boards with directors who have participated in distancing at other firms. Such "network gossip" about distancing may also deter directors from participating in elite-threatening actions (Gluckman, 1963; Merry, 1984). Thus, we controlled for *indirect exposure to social distancing* in models of subsequent participation in elite-threatening changes. This measure represents the average level of social distancing at other boards in the sample to which the focal director is connected by an indirect board tie, where an indirect tie exists between focal director A and another board B if director A sits on a third board that includes one or more outside directors from board B.

We also controlled for director status in the corporate elite in models of subsequent participation in elite-threatening actions. To the extent that status is both a reflection and source of power (Homans, 1950; Coleman, 1994), high-status directors may feel less constrained by the norms of the corporate elite; alternatively, sources of high status such as multiple board appointments and elite education may have the effect of more thoroughly socializing directors into elite norms, in which case high-status directors may be less likely to participate in elite-threatening actions. We also controlled for the main effect of director status in models of social distancing. As discussed above, one of our indicators of director status was the average stock rating of firms where the individual served as director (in separate analyses, we used the average return on assets and total stock returns of firms where the individual served as outside director and found the hypothesized results were unchanged). Thus, our analysis controlled for the possibility that low director status resulting from appointments to boards with performance problems could confound evidence for an effect of director participation in elite-threatening actions on social distancing.

Given that institutional investors have exerted considerable pressure on boards to exercise independent control over top managers (Davis and Thompson, 1994; Westphal and Zajac, 1998; Porac, Wade, and Pollock, 1999), we controlled for *ownership by institutional investors* in all models. This variable indicates the total number of shares held by pension funds, banks and trust companies, savings and loans, mutual fund managers, and labor union funds, divided by total common stock. We controlled for *stock ownership by the focal director* in models of participation in elite-threatening actions because ownership could provide an economic incentive for directors to exercise control over top management (Hoskisson, Johnson, and Moesel, 1994). Ownership could also reduce the propensity for directors other than the focal director to engage in distancing of individuals who threaten

management interests; thus, we controlled for *ownership by other outside directors* in models of distancing, measured as the percentage of common stock held by all outside directors (excluding the focal director).

In addition, in all models, we included a control variable to indicate whether a focal director served on boards of companies that had been the target of a *shareholder resolution* related to poison pills, CEO/board-chair separation, the creation of an independent nominating committee, or CEO dismissal. Such resolutions indicate external pressure from shareholders to make changes that increase independent board control over management (Kesner and Johnson, 1990; Bizjak and Marquette, 1998). Also, given prior evidence that directors are more likely to exercise control over CEO compensation when they are demographically different from top managers (Zajac and Westphal, 1995), we controlled for demographic dissimilarity between the focal director and the CEO (*CEO/director dissimilarity*), using the demographic characteristics discussed above.

We controlled for *firm size*, measured as log of sales, in models of participation in elite-threatening actions. To the extent that larger firms are subjected to more media scrutiny regarding their corporate governance practices (Useem, 1993), directors at such firms may experience more pressure to increase board control over management. Poor firm performance could also increase external pressure from investors to exercise independent board control over management. Thus, we included a control variable for firm performance, operationalized as *market-to-book value* of equity. We adjusted this measure for industry differences by subtracting the primary industry median market-to-book value (excluding the focal firm) from the focal firm value. We also controlled for the *number of possible elite-threatening actions* in these models, measured as:

$$\sum_{y=t+1}^{t+2}\left[\sum_{b=1}^{N}(S^{p}_{y,b} + I^{p}_{y,b} + P^{p}_{y,b} + D^{p}_{y,b})\right]$$

where $S^p = 1$ if the CEO and board-chair positions were not separated at board b, $I^p = 1$ if there was not an independent nominating committee, $D^p = 1$ if the CEO had not been dismissed, and $P^p = 1$ if a poison pill was in place for the N boards on which the focal individual served as director during the two-year period following the initial survey in year y (t indicates the time of the initial survey, and t+2 indicates the time of the follow-up survey). Although boards can, in principle, dismiss the CEO in two consecutive years, there were no such cases in our sample.

All of these controls were lagged by one year, with the exception of *challenging behavior*, which was based on a survey measure. Finally, we included dummy variables for industry in models of social distancing, based on two-digit SIC codes, to capture the potential for industry-specific norms in social control. We did not control for a director's prior participation in elite-threatening actions in models of subsequent participation because our two-stage least squares regression

models control for any biases created by an underlying propensity for directors to participate in elite-threatening actions, as discussed below. Nevertheless, in separate models, we controlled for prior participation in elite-threatening actions and found that the hypothesized effects were unchanged.

Analysis

We estimated social distancing and participation in elite-threatening actions for three different samples. In the first set of analyses, we estimated self-reported social distancing for directors who responded to the survey (N = 1098). The second set of analyses estimated distancing for outside directors at a company where one or more other directors responded (N = 4152). In the latter analyses, the extent of social distancing from a particular director was estimated by another responding director on the board. Results of these analyses are presented below. To check the robustness of the analyses, a third set of analyses estimated social distancing at companies where at least two directors responded, with survey responses averaged across responding directors. Results of the latter analyses were not substantively different from the results discussed below, which reflects the high level of interrater reliability reported above.

We used OLS regression analysis to estimate social distancing as reported by the focal director. For the second sample, we estimated social distancing using the Newey-West robust variance estimator for clustered data (Newey and West, 1987). This procedure generates robust estimates when observations are not independent within clusters or groups. In this case, directors on the same board may not be independent for several reasons. A director may experience less social distancing in response to a given level of participation in elite-threatening changes if there is another director on the same board who has participated in such changes to an even greater extent. Moreover, given that the level of social distancing experienced by each outside director is reported by a single director, response biases could depress variance in social distancing among directors on the same board. The robust variance estimator allows us to correct for such biases. It essentially treats each cluster (i.e., board) as a super-observation that contributes to the variance estimate. The data can also be clustered by director, because a significant portion of directors have appointments at more than one board in the sample (31 percent). Thus, we used the robust variance estimator to correct for both types of non-independence: across different directors on the same board and across the same directors on different boards.

We estimated the archival measure of subsequent participation in elite-threatening actions using two-stage logistic regression. To the extent that directors have an underlying propensity to participate in elite-threatening actions that is not fully captured by our independent variables, the logistic regression estimates could be biased. Two-stage regression corrects for this bias by first estimating social distancing and then including predicted values from that equation in a second-stage logistic regression model of subsequent participa-

tion in elite-threatening actions (Johnston and DiNardo, 1997). Logistic regression is appropriate for estimating a dichotomous variable, and in this case, the dependent variable indicates whether the focal director participated in any elite-threatening changes after experiencing social distancing. The survey measure of subsequent participation is estimated using two-stage least squares regression. We again used the robust variance estimator with the data clustered by director.

RESULTS

Descriptive statistics and bivariate correlations are displayed in table 2. Table 3 shows the results of regression analyses of social distancing. Models 1–4 estimate social distancing as reported by the focal director, and models 5–8 estimate social distancing as reported by other outside directors on the board. The results support hypothesis 1, which predicted that directors who have participated in elite-threatening actions are more likely to experience social distancing on other boards. As shown in models 1 and 3, both the archival measure and the survey measure of prior participation in elite-threatening actions are significantly related to social distancing as reported by the focal director. Thus, directors are more likely to experience social distancing by other board members to the extent that they have participated in elite-threatening actions during the prior two-year period, including the repeal of poison pills, CEO dismissal, the creation of independent nominating committees, and separation of the CEO and board-chair positions. As shown in models 5 and 7, this result holds for social distancing as reported by other directors on the same board as well as self-reported social distancing. We also examined the magnitude of these effects for individual survey indicators of social distancing. An increase in prior participation in elite-threatening actions from 0 to 1 corresponds to an increase in indicators of social distancing ranging from 42 to 57 percent (based on the archival measure of participation in elite-threatening actions and self-reported distancing). For instance, directors who participated previously in one (vs. zero) elite-threatening action were invited to 49 percent fewer informal meetings, and their input on strategic issues was solicited on 53 percent fewer occasions in formal board meetings.

As discussed above, in further analyses we developed separate measures of participation in elite-threatening actions for each of the four changes (i.e., x_1 = participation in CEO/board-chair separation, x_2 = participation in creation of independent nominating committees, x_3 = participation in poison pill repeal, and x_4 = participation in CEO dismissal). Each of the four variables had a significant and positive effect on social distancing. These results held up using the survey measures of participation in elite-threatening actions as well as the archival measures.

Responses of directors we interviewed during the qualitative study supported the above results. For example, interviewees stated that when directors sit on boards that make such changes, they "can expect to be ostracized," "people are less interested in working with [them]" and "it will be harder to have as much influence [on other boards]," they will get

Table 2

Descriptive Statistics and Pearson Correlation Coefficients

Independent variable	Mean	S.D.	1	2	3	4	5	6	7	8	9
1. Prior participation in elite-threatening actions–archival measure	.65	.94									
2. Prior participation in elite-threatening actions–survey measure	2.22	2.77	.53								
3. Shareholder resolution	.13	.39	.01	.01							
4. Prior elite-threatening actions–focal firm	.17	.40	.04	.05	−.12						
5. Challenging behavior	.00	.97	−.08	−.04	−.04	.23					
6. Demographic dissimilarity	.01	2.89	.11	.08	.00	.10	−.05				
7. Common board ties	.63	.64	−.07	−.10	.02	−.02	−.12	.09			
8. Ownership by institutional investors	.33	.21	.00	.03	.17	.05	.06	.01	−.01		
9. Stock ownership by other outside directors	.05	.08	.02	.04	−.05	.07	.02	.03	.01	−.07	
10. Stock ownership by focal director	.00	.01	.05	.04	−.02	.01	.09	.01	.02	.03	.17
11. Director status	.00	.86	.07	.07	.02	.03	.05	−.06	.08	.01	−.01
12. Director tenure on the board	7.53	6.31	.00	−.02	.01	.00	−.07	−.03	.06	−.05	.01
13. Indirect exposure to social distancing	.17	.36	−.06	−.04	−.01	.00	−.22	−.03	.33	−.01	−.02
14. Direct exposure to social distancing	.20	.43	−.02	−.02	.01	.01	−.17	−.03	.06	.01	.09
15. CEO/director dissimilarity	.00	2.73	.06	.04	−.03	.08	.19	.14	−.03	.00	.07
16. Firm size	7.54	.51	.01	.02	.04	.08	−.06	−.04	.04	.21	−.12
17. Industry-adjusted market-to-book value	.02	.57	−.03	−.02	−.34	.02	−.12	.01	.00	.07	.10
18. Social distancing	.01	.96	.28	.26	.04	−.29	.04	.35	−.05	.14	−.07
19. Subsequent participation in elite-threatening actions–archival measure	.13	.34	.03	.04	.05	.01	.02	.03	−.01	.08	.11
20. Subsequent participation in elite-threatening actions–survey measure	.71	.72	.02	.04	.06	.01	.04	.03	−.02	.10	.10

	10	11	12	13	14	15	16	17	18	19
11. Director status	.04									
12. Director tenure on the board	.22	.10								
13. Indirect exposure to social distancing	.02	.06	.02							
14. Direct exposure to social distancing	.01	.08	.02	.12						
15. CEO/director dissimilarity	−.04	−.04	−.06	−.02	.03					
16. Firm size	−.08	.02	.04	.03	.03	−.08				
17. Industry-adjusted market-to-book value	.12	−.01	−.02	.02	.00	.03	−.04			
18. Social distancing	−.08	−.05	−.11	−.02	−.06	.10	−.01	.00		
19. Subsequent participation in elite-threatening actions–archival measure	.06	.07	.02	−.21	−.22	.20	−.25	−.19	−.28	
20. Subsequent participation in elite-threatening actions–survey measure	.09	.07	.03	−.18	−.23	.17	−.24	−.22	−.27	.50

"the cold shoulder," and so forth. One director elaborated, "A director on [a particular board where the focal person sits] was on another board where they did a couple of those things [some of the four changes]. People didn't pay as much attention to him in meetings after that." When asked to elaborate, he said, "I would say [he] got the silent treatment more or less. His input wasn't sought after and his ideas weren't well received. And [he] had plenty of expertise to

Table 3

Regression Analyses of Social Distancing*

	Social Distancing as Reported by Focal Director				Social Distancing as Reported by Other Outside Directors on Board†			
Independent variable	Mxodel 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Prior participation in elite-threatening actions–archival measure‡	.118••• (.029)	.111••• (.028)			.078••• (.018)	.075••• (.019)		
Prior participation in elite-threatening actions–survey measure‡			.034••• (.009)	.032••• (.009)			.022••• (.006)	.023••• (.006)
Shareholder resolution	.068 (.062)	.069 (.062)	.070 (.062)	.071 (.062)	.047 (.041)	.047 (.041)	.046 (.040)	.047 (.041)
Prior elite-threatening actions–focal firm	−.176••• (.050)	−.173••• (.050)	−.164••• (.050)	−.165••• (.050)	−.138••• (.042)	−.137••• (.043)	−.139••• (.042)	−.138••• (.042)
Challenging behavior	.028 (.029)	.028 (.029)	.028 (.028)	.027 (.028)	.026 (.019)	.026 (.019)	.027 (.019)	.025 (.019)
Demographic dissimilarity	.034••• (.010)	.034••• (.010)	.034••• (.010)	.033••• (.009)	.023••• (.007)	.023••• (.007)	.023••• (.007)	.022••• (.007)
Common board ties	−.057 (.053)	−.057 (.053)	−.067 (.053)	−.066 (.053)	−.031 (.027)	−.032 (.027)	−.032 (.027)	−.032 (.027)
Ownership by institutional investors	.242 (.154)	.238 (.154)	.233 (.152)	.231 (.150)	.090 (.075)	.090 (.075)	.087 (.073)	.088 (.072)
Stock ownership by other outside directors	−.600 (.351)	−.584 (.351)	−.546 (.345)	−.541 (.349)	−.446 (.242)	−.449 (.242)	−.441 (.241)	−.447 (.242)
Stock ownership by focal director	−6.353 (3.902)	−6.354 (3.907)	−6.348 (3.868)	−6.494 (3.962)	−3.206 (2.425)	−3.204 (2.427)	−3.211 (2.411)	−3.163 (2.396)
Director status	−.052 (.030)	−.052 (.030)	−.051 (.030)	−.053 (.031)	−.032 (.018)	−.032 (.019)	−.031 (.018)	−.033 (.019)
Director tenure on board	−.006 (.004)	−.006 (.004)	−.006 (.004)	−.006 (.004)	−.004 (.003)	−.004 (.003)	−.004 (.003)	−.004 (.003)
Prior participation in elite-threatening actions × Director status		−.062• (.027)		−.022• (.010)		−.041•• (.017)		−.014• (.006)
Constant	.245 (.179)	.243 (.179)	.243 (.175)	.234 (.177)	.079 (.103)	.080 (.103)	.076 (.103)	−.077 (.101)
F	24.24•••	25.57•••	21.94•••	23.38•••	26.24•••	28.62•••	22.16•••	23.81•••
R^2	.60	.67	.59	.67	.55	.64	.53	.61

• $p \leq .05$; •• $p \leq .01$; ••• $p \leq .001$; t-tests are one-tailed for hypothesized effects, two-tailed for control variables.
* Standard errors are in parentheses. Industry dummy variables were included in the models but are not reported here.
† These models were estimated using the robust variance estimator for clustered data (White, 1980).
‡ Participation in elite-threatening actions was measured for the two-year period prior to the survey date.

contribute." Another director explained that he had seen and heard about cases in which one of a director's other boards implemented one of the four changes and said that the director "gets treated differently—I think they get put on notice a bit. There's a strong feeling among most of the experienced directors I know [that] those kinds of actions are inappropriate; they're PC [politically correct], institutional investors like it and so by doing it you can [cover your back], but that's not what directors should be doing—directors shouldn't get in the way of managers—directors are not managers." Similarly, a third director commented that "[participating in the specific actions mentioned] will hurt your credibility as a director. You won't get thrown off the board, but you definitely won't get treated the same. In a way you get treated like the enemy—or at least as suspect." Finally, one director related his own experience: "After we fired the CEO I got the cold shoulder from [colleagues at another board] . . . I didn't get invited to an important meeting."

Further, when asked explicitly about the culpability of individual directors for board actions that indicate independent board control over management, interviewees generally felt

that all outside directors are held responsible for such board-level actions. A number of directors explained that such actions typically require the support of all outside directors, and so all directors are held accountable for them. In addition, all interviewees felt that a single director could prevent such changes. For instance, one interviewee noted that "one director can definitely keep it from happening. A board isn't going to go against management like that if all the [outside] directors aren't willing to support it." Similarly, another interviewee commented, "A major change of that kind implies the support of all outside directors. I believe most of my colleagues agree with that. If you were against it, you should have said something to keep it from happening." Yet another director commented that "[in regard to board reforms] as an outside director, the board's decision is my decision." Our large-sample survey data on director support for elite-threatening actions also corroborated these findings. While there were a number of cases in which individual directors were perceived as having supported elite-threatening actions that were not ultimately approved by the board, there were only two cases in which individual directors were perceived as having *not* supported elite-threatening actions that *did* occur. This provides further evidence that the elite-threatening changes examined in our study require the consensus support of all outside directors, so that (1) individual directors are accountable for these board-level actions, and (2) individual directors who have experienced social distancing can effectively prevent these actions from occurring subsequently. These assumptions are also supported by Hirsch's (1982) findings from qualitative research on boards of Fortune 500 companies that major policy decisions made by boards are almost always unanimous.

Moreover, we also asked interviewees whether institutional investors force companies that they are invested in to initiate board reforms or engage in independent board control over management, such that directors of these companies are less culpable for such actions. All the interviewees said that institutional investors generally cannot force directors to initiate the governance reforms that we examine, and even when they can, they do not do so, though they may advocate such changes or encourage directors to make them. One director commented, "They use persuasion and the threat of negative publicity to try to encourage directors to make the reforms." Another director commented, in the same vein, "CalPERS can make things unpleasant for directors but they wouldn't require them to make reforms like that. In the end it's the directors' choice to do it or not do it. So yes they are accountable." In any event, the survey measure of participation in elite-threatening actions, which gauges the extent to which individual directors supported such actions, does not rely on the assumption that individual directors are responsible for actions taken by their boards.

Responses to the survey also corroborated our assumption that directors tend to be aware of elite-threatening actions on other boards. For instance, 91 percent of directors identified the correct company in response to a question in which we randomly selected one company that had repealed a poison

pill in the last two years and two companies that had not and asked them to indicate which company had repealed a pill. A similarly high percentage of respondents were able to identify CEOs at other companies who had lost the board-chair position (89 percent).

Hypothesis 2 predicted that a director's status in the corporate elite would negatively moderate the extent to which he or she experienced social distancing in response to participation in elite-threatening actions. The interaction effects are tested in models 2, 4, 6, and 8 of table 3. The results consistently supported hypothesis 2: directors who have relatively high status in the corporate elite experience less social distancing in response to a given level of participation in elite-threatening actions. This result held for both measures of prior participation in elite-threatening actions and both measures of social distancing. Moreover, analysis of simple effects indicated that the effect of participation in elite-threatening actions on distancing is positive and significant for directors with average levels of status; thus, directors typically experience distancing in response to such participation. As their status increases, directors experience less pronounced social sanctioning, and the effect of participation in elite-threatening actions actually becomes non-significant at very high levels of director status (i.e., more than approximately one standard deviation above the mean).

Table 4 shows the results of two-stage regression analyses of subsequent participation in elite-threatening actions during the two-year period following the survey date. The archival measure of participation in elite-threatening actions is estimated in models 1 and 2, and the survey measure is estimated in models 3 and 4 (models 1 and 3 are based on self-reported social distancing, and models 2 and 4 are based on social distancing as reported by other board members). All models support hypothesis 3: the level of social distancing experienced by a director on a particular board is negatively associated with that director's subsequent participation in elite-threatening actions on other boards.[2]

Our qualitative interviews also corroborated our contention, rooted in theory and research on social control, that people typically find social distancing psychologically aversive and will be highly motivated to engage in behavior that can restore social inclusion. When asked whether they thought directors who experience social distancing would tend to find *it* aversive, 17 of the 19 interviewees in the second wave agreed that social distancing is (or would be) aversive to directors (two interviewees said that they were unsure). We also asked interviewees how they thought directors would react (if at all) to social distancing. Most respondents (13) felt that directors who experience distancing would try to regain the acceptance of their peers (four interviewees said that directors would either seek to regain acceptance or leave boards where they were not accepted, and two were unsure what directors would do). Interviewees generally felt that a director who experiences social distancing "is going to want to correct that situation" . . . "restore his credibility" . . . "regain respect," and so forth. One director commented, "yes, I think if someone loses respect of [their peers on a

2
A director's subsequent participation in elite-threatening actions on another firm's board could be affected by the level of institutional stock ownership of that firm, in addition to the level of social distancing he or she experienced. We tested for this in separate analyses of participation in elite-threatening actions by interacting social distancing with institutional stock ownership. The interaction was not significant and did not change the hypothesized results.

Table 4

Two-stage Regression Analyses of Subsequent Participation in Elite-Threatening Actions*

	Subsequent Participation in Elite-Threatening Actions			
	Archival measure†		Survey measure†	
Independent variable	Model 1	Model 2	Model 3	Model 4
Social distancing	−.862••	−.832••	−.161••	−.193••
	(.316)	(.289)	(.061)	(.068)
Shareholder resolution	.283	.093	.037	.018
	(.160)	(.065)	(.027)	(.014)
Number of possible elite-threatening actions	.120•••	.037•••	.019•••	.009•••
	(.031)	(.010)	(.004)	(.002)
Ownership by institutional investors	.724	.389	.224	.103
	(.531)	(.236)	(.139)	(.063)
Stock ownership of other outside directors	17.314	8.638	4.407	2.23
	(9.777)	(4.725)	(2.636)	(1.151)
Stock ownership of focal director	32.739	17.948	9.793•	4.284
	(16.678)	(10.117)	(4.633)	(2.230)
Director status	.156	.085	.037	.020
	(.131)	(.060)	(.025)	(.014)
Director tenure on board	.015	.001	.004	.001
	(.027)	(.009)	(.004)	(.002)
Indirect exposure to social distancing	−.458•	−.330•	−.090•	−.077•
	(.204)	(.147)	(.042)	(.034)
Direct exposure to social distancing	−.557••	−.337•	−.091•	−.068•
	(.214)	(.138)	(.039)	(.031)
CEO/director dissimilarity	.080•	.043•	.019•	.010•
	(.035)	(.018)	(.008)	(.004)
Firm size	−.521••	−.298••	−.109••	−.068••
	(.178)	(.104)	(.037)	(.024)
Industry-adjusted market-to-book value	−.588•••	−.259••	−.112••	−.059••
	(.179)	(.090)	(.038)	(.022)
Constant	1.589	.865	.358	.260
	(1.240)	(.674)	(.266)	(.157)
χ^2	103.93•••	88.37•••		
F			19.82•••	19.50•••
R^2			.45	.43

• $p \leq .05$; •• $p \leq .01$; ••• $p \leq .001$; t-tests are one-tailed for hypothesized effects, two-tailed for control variables.
* Standard errors are in parentheses. Industry dummy variables were included in the models but are not reported here.
† Participation in elite-threatening actions was measured for the two-year period following the survey date. Models 1 and 3 are based on social distancing as reported by the focal director; models 2 and 4 are based on social distancing as reported by other outside directors on the board, estimated using the robust variance estimator for clustered data (White, 1980).

board] because they supported a controversial type of board reform or something of that kind they will naturally want to regain that respect—or they'll stop serving on boards like that [i.e., boards of large companies]." Some directors felt it would be very unpleasant for anyone not to be "accepted by colleagues on a board." Another director commented, "I suppose some people might not care if they're outcast—but most people would, directors included."

Qualitative evidence from the second wave of interviews corroborated other aspects of our theoretical argument as well, including our contention that social distancing of a director would likely diminish after a sustained period of "good behavior" (i.e., not participating in elite-threatening actions) and our implicit assumption that directors have discretion about participating in elite-threatening actions, even when institutional ownership is high. We asked interviewees whether they thought directors would be likely to experience social distancing when they had participated in changes that

indicated independent board control over management more than three years ago but had not participated in such changes since. Sixteen of the 19 directors felt that a director would be unlikely to experience social distancing in such a situation (two directors were unsure, and one did not directly answer the question). They generally felt that other directors' memories of an individual's actions would diminish over time. One director said, "No, if someone doesn't participate in [changes that indicate board control over management] for three years I cannot imagine they would be ostracized for what they did before." Another director who had experienced aspects of social distancing himself after firing a CEO more than three years ago said, "I haven't been involved in any action like that since and eventually my [relations with other directors] returned to normal."

Several of the variables that were included as controls in the regression models yielded results of interest. As shown in table 3, demographic dissimilarity between the focal director and other board members is positively associated with the level of social distancing. Moreover, results in table 4 show that neither director stock ownership nor institutional investor ownership is significantly associated with subsequent participation in elite-threatening actions. The recent introduction of a shareholder resolution related to one or more of the elite-threatening changes examined in the study also did not affect the extent of subsequent participation in elite-threatening actions.

DISCUSSION

Overall, the findings are consistent with sociological perspectives on the corporate elite, which have long suggested that boards are a critical mechanism by which the solidarity of the corporate elite is maintained and the interests of corporate leaders are served (Mills, 1956; Domhoff, 1970; Useem, 1982; Palmer and Barber, 2001). We extend prior theory and research by suggesting that boards provide a locus for socialization of directors into the norms of the corporate elite by showing how boards also provide a locus for social sanctioning of directors who violate the priorities of corporate leaders and demonstrating that such sanctioning is effective in deterring deviant behavior. More generally, by providing evidence that directors who violate the preferences of corporate leaders are sanctioned on corporate boards, our findings provide unique evidence that the American corporate elite acts as a solidary group bound together by norms that protect the interests of its members.

The first set of results showed that directors who participated in specific changes in corporate governance that threaten the interests or social integrity of the corporate elite, including the repeal of poison pills, allocating the board-chair position to an independent director, the creation of independent nominating committees, and CEO dismissal, subsequently experienced a higher level of social distancing on other boards. These findings are consistent with anthropological research and sociological perspectives on social control, which suggest that when large groups are relatively cohesive because of demographic homogeneity and social network

ties between members, and the group is experiencing an external threat to its interests and/or social integrity, then individuals who appear to bow to external pressures against the group can be subjected to social distancing from other group members (Wood, 1974; Merry, 1984; Coleman, 1994). Directors who acquiesced to external pressure from institutional investors and other stakeholders to increase independent board control over management, thus threatening the autonomy of top managers and dividing the corporate elite into separate groups of controllers and managers, appear to have experienced specific aspects of social distancing that have been identified in the anthropological and sociological literature: they are less likely to be invited to informal meetings; other directors are less likely to solicit their opinion on strategic issues or to build on their comments and suggestions in meetings; and other directors are more likely to engage in gossip about people and events with which they are not familiar. In effect, it appears that deviant directors who have violated the interests and integrity of the corporate elite experience a kind of informal ostracism in which they are excluded, to some degree, from the work of the board and from social interaction and association with other directors.

Additional findings indicated that a director's status in the corporate elite moderates the extent to which the director is subjected to social distancing in response to participation in elite-threatening actions. Directors with relatively high status in the corporate elite experienced less distancing than directors with relatively low status. This finding is consistent with sociological perspectives on social control, which suggest that people are reluctant to sanction high-status group members because they suffer a relatively large loss in social capital by doing so (Evens, 1975; Coleman, 1994). The results are also consistent with social psychological perspectives on deviance, which suggest that people are biased in perceiving deviant behavior by high-status group members: they tend to discount deviance by high-status individuals as an anomaly and overestimate the degree to which such behavior is influenced by external constraints as opposed to the deviant's personal preferences (Swigert and Farrell, 1977; Giordano, 1983; D'Aveni, 1990). At the same time, while the results are consistent with these theoretical arguments, analysis of the interaction effects suggested that directors typically do experience sanctioning in response to deviant behavior. For directors with low to medium levels of status, participation in elite-threatening actions is positively associated with social distancing; this relationship only becomes non-significant for directors with relatively high levels of status (i.e., more than approximately one standard deviation above the mean).[3]

A second set of findings addressed the consequences of social distancing. The results consistently indicated that directors are less likely to participate in changes that threaten the interests of the corporate elite if they have recently experienced social distancing. This finding is again consistent with the literature on social control, which suggests that social distancing is effective in deterring recidivism of deviant behavior, or the tendency to engage in deviant actions repeatedly

3
In separate analyses, we examined whether the effects of prior participation in elite-threatening actions on social distancing were moderated by (1) the level of institutional ownership at the focal firm or (2) common board ties between the focal director and other outside directors on the board (i.e., the number of other boards where both the focal director and another director from the board have an appointment). The interaction effects were consistently insignificant.

(Black, 1984; Tittle, 1995). Moreover, additional results showed that directors who are exposed to social distancing (i.e., by sitting on boards that engaged in distancing) or who have indirect network ties to boards that engaged in distancing were also less likely to participate subsequently in elite-threatening actions. These results are also consistent with theory and research on social control, which suggests that individuals who observe others being sanctioned for deviant behavior or who become aware of such sanctioning through social network ties may be deterred from participating in deviant behavior themselves (Gluckman, 1963; Tittle, 1980; Merry, 1984).

At the same time, while institutional ownership raises the threat of lawsuits against directors who fail to make changes that indicate board control over management, and director stock ownership provides an economic incentive for directors to make these changes (i.e., given that the changes examined here tend to garner a positive stock market response), neither director ownership nor the level of ownership by institutional investors increased the rate of director participation in elite-threatening actions that reflect independent board control over management. Shareholder resolutions that advocate changes related to those we examine in the study also did not affect the rate of director participation in elite-threatening actions. Thus, our findings suggest that the deterrent effect of social distancing outweighs the effect of economic incentives and external pressures to participate in actions that deviate from normative expectations for individual group members, which in this case involve respecting the decision-making autonomy of fellow top managers (Vogel, 1978; Useem, 1984; Davis and Thompson, 1994).

Accordingly, our theoretical perspective and supportive findings can help explain why the so-called shareholder revolution in corporate governance has stalled in recent years (Black, 1998; Westphal and Zajac, 1998; Kang and Sorensen, 1999). Researchers and corporate governance observers taking an economic and/or legal perspective generally believed (or assumed) that institutional investors would be successful in implementing widespread governance "reforms" that increase shareholder control over the corporate elite (e.g., Brown, 1990; Jensen, 1993). Moreover, some organizational theorists were dubious about whether members of the corporate elite were capable of acting in a unified manner against this external threat. Existing perspectives on the corporate elite suggest that boards provide a defense mechanism against external threats to the corporate elite by socializing directors to protect the interests (e.g., decision-making autonomy) of top managers and by spreading information about specific business practices that further or protect managerial interests (e.g., Mills, 1956; Koenig and Gogel, 1981; Useem, 1984; Mizruchi, 1992; Davis and Greve, 1997; Palmer and Barber, 2001). In contrast, recent perspectives on social control suggest that when individual members of large social groups have personal incentives to violate the collective interests of the group (i.e., due to economic incentives, as in this case), then socialization processes alone, while important, are insufficient; in such contexts, social solidarity

requires the use of meaningful social sanctions against individuals who deviate from the collective interest (Hechter, 1987; Coleman, 1994). Our findings suggest how socialization and information exchange on boards is reinforced by social sanctioning of individuals who deviate from the collective interest of the corporate elite and that this social process can help explain how elites have resisted external pressure for corporate governance reform.

More generally, therefore, our findings contribute to the literature on corporate leadership and governance by showing how, or by what social process, the corporate elite can bring its individual members to act collectively to protect managerial interests. Future studies might examine whether our theoretical perspective on social control in the corporate elite generalizes to other countries and cultures. The shareholder control movement has begun to spread to other countries in Europe, Southeast Asia, and the Middle East, posing a threat to the interests of corporate elites in those regions (Useem et al., 1996; Phan, 2000). Researchers could examine whether variation in the particular social characteristics of the corporate elite across these countries, such as the level of demographic homogeneity and social network connectedness, as well as variation in the strength of inducements to initiate elite-threatening actions, can predict the relative extent and effectiveness of informal social control. It would also be interesting to examine whether our findings generalize to the most recent time period. Directors may have recently experienced stronger inducements to engage in elite-threatening actions due to a general increase in the threat of shareholder lawsuits and media scrutiny of corporate governance practices in the wake of Enron and other widely publicized corporate accounting scandals. Future research should examine whether the effects of social control observed in this study are reduced under such extraordinary circumstances.

The findings of this study show the value of directly examining social processes that occur on boards, as such processes appear to mediate the effects of board interlock ties on the diffusion of practices. Mizruchi (1996) and others have noted the virtual absence of systematic, quantitative research on the social interactions that underlie board network ties (Westphal, 1999). Researchers have also noted the tendency for theoretical perspectives on the content of board interlocks to focus on how board ties facilitate the exchange of information on particular corporate policies, with little attention to other social processes that may occur between corporate directors (Pettigrew, 1992; Finkelstein and Hambrick, 1996; Mizruchi, 1996). A conventional contagion perspective on the content of board interlock ties would suggest that changes in corporate governance policy should diffuse through the board interlock network as managers from early-adopting firms exchange information about the merits of these changes with managers from other firms through joint participation in decision making on a particular board. By contrast, our theoretical perspective and supportive findings indicate how social sanctioning by directors toward other directors who have adopted certain policy changes can actually stem diffu-

sion of changes in corporate policy. More generally, our theory and findings suggest that diffusion of an organizational practice is contingent on its normative status. Adopters of a practice that violates the group's norms or interests are sanctioned by other group members, which stems the diffusion of the practice across members of the group. The social control mechanisms examined in this study may help explain evidence for negative contagion or "aversion" in other contexts (Coleman, 1994: 299; Tolnay, Deane, and Beck, 1996).

Our findings also suggest that control in corporate governance can be viewed as a social phenomenon. In recent years, the corporate governance literature has drawn largely from economic perspectives such as agency theory, and in some cases micro-political perspectives, to explain the determinants of corporate control (for a review, see Finkelstein and Hambrick, 1996). These perspectives tend to assume that control lies with individuals or small groups, such as individual CEOs, boards, or owners, thus lending a somewhat atomistic, and perhaps oversimplified perspective to theory and research on corporate control. In contrast, the present study suggests how control can be exercised by the corporate elite as a larger social group. From our theoretical perspective, directors exercise social control over other directors not because it serves their own personal interests (whether economic or political), but because those directors violated normative expectations for members of the corporate elite by failing to respect the autonomy of managers on another board.

Thus, our theoretical perspective and supportive findings suggest that given the current social dynamics of the corporate elite, corporate governance reform in large companies may be difficult to achieve. Such reform may ultimately require the induction onto corporate boards of individuals from substantially different socioeconomic and professional backgrounds who have not been socialized into the norms of the corporate elite. It seems likely that such change would have to occur on a relatively large scale for the social dynamics observed in this study to change.

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