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ESSAYS ON STRATEGIC MARKETING AND SALES

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ESSAYS ON STRATEGIC MARKETING AND SALES

Abstract

Abstract

The success of any organization depends on maintaining profitable customer relationships. However, boardroom discussions often do not adequately focus on customers. This is problematic as taking strategic decisions, at the highest level of the organization, without considering customer perceptions could jeopardize the financial health of the organizations. In this dissertation, I first examine the pivotal role of customer perceptions in the success (failure) of certain boardroom decisions and then demonstrate how shareholders can make the boards more customer-centric.

In essay 1, I examine how a boardroom decision to merge with a poorer image organization affects salespeople. Drawing from literature on social identity theory, I hypothesize that merging with a poorer image organization decreases salespeople's organizational identification (OI), leading to a lower performance. In addition, I hypothesize that (1) salespeople experience a higher decrease in OI if they have longer-tenure or they work for a manager that places greater emphasis on organizational culture or distinctiveness (2) salespeople experience a lower decrease in OI if they have greater social inclusion or they work for manager that places greater emphasis on organizational strategic direction.

To test these relationships, I use longitudinal data embedded in an interesting natural experiment: a merger between a national retailer (focal firm) and the regional retailer. As the regional retailer has a poorer image, the national retailer's image was at stake, but only in the overlapping region (where both the retail stores were operating). Therefore, I consider the overlapping region as the treatment group and the non-

overlapping region as the control group. I study more than 350 salespeople across the treatment and control groups over a period of 13 months: six months before and seven months after the merger announcement. I found support for the hypotheses under different econometric methods. Specifically, I use fixed-effects difference-in-differences, multi-level model, and moderated-mediation regression methods. In addition to the above methods, I also find evidence for the hypotheses under an instrumental variable approach.

In the second essay, I investigate whether having a customer in the boardroom matters. In particular, in the context of business-business firms, I explore whether having an executive from one of the firm's customers as a board member enhances firm performance. Building on resource dependency theory, I hypothesize that having a customer in the boardroom improves firm performance. Moreover, I hypothesize that a number of factors moderates this effect. Specifically, I hypothesize that (a) presence of marketing executive in the top management (b) firm diversification (c) industry demand uncertainty (d) CEO tenure moderate this relationship.

Using an objective measure of customer presence in the boardroom and a sample of 329 business-to-business firms over a nine-year period (2007–2015), I find that customer presence in the boardroom enhances firms' performance (Tobin's q). Furthermore, I find that a customer on the board is less valuable when the firm's top management team contains marketing personnel or when the firm is highly diversified. In contrast, a customer on the board is more valuable when the chief executive officer has a long tenure or demand uncertainty is high.

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The Impact of Mergers and Acquisitions on the Sales Force

Introduction

Mergers and acquisitions (M&As) have become an important strategic option for organizations to remain competitive in the global market. For example, in 2015, more than 10,000 M&A transactions involved U.S. organizations, and their value surpassed $2 trillion for the first time (Sinclair 2016). However, considerable evidence shows that 70%–90% of the M&As fail to create value for the acquirer (Christensen et al. 2011). To explain this problem, scholars from multiple fields have examined M&As from various angles.

In the strategic management domain, scholars have primarily attributed the success and failure of M&As to macro-level variables, such as the strategic fit between the merging firms and challenges of integration. Extant marketing research primarily follows this school, focusing on strategic issues such as marketing capabilities (Wiles, Morgan, and Rego 2012), product capital (Sorescu, Chandy, and Prabhu 2007), incumbent response (Mukherji et al. 2011), strategic emphasis (Swaminathan, Murshed, and Hulland 2008), resource redeployment (Capron and Hulland 1999), innovation (Prabhu, Chandy, and Ellis 2005; Rao, Yu, and Umashankar 2016), marketing integration (Homburg and Bucerius 2005), positioning relatedness (Wiles, Morgan, and Rego 2012), and brand-related issues (Bahadir, Bharadwaj, and Srivastava 2008; Capron and Hulland 1999; Jaju, Joiner, and Reddy 2006). Although this rich literature has provided useful insights into the marketing implications of M&As, three important research gaps remain.

First, in terms of the level of analysis and focal stakeholders, prior marketing research on M&As has focused primarily on firm-level examination of the impact of

M&As on the acquiring firm's marketing department (e.g., Homburg and Bucerius 2005), customers (e.g., Papavasileiou, Swain, and Bhattacharya 2008), suppliers and networks (e.g., Anderson, Havila, and Salmi 2001), and marketing managers (e.g., Richey et al. 2008). To my knowledge, no marketing research has explored how M&As influence salespeople. This is surprising, given that sales forces represent an important marketing spending that is more than three times advertising expenditure in the United States (Steenberg and Ahearne 2012). More important, salespeople play a vital role in personal marketing communication, customer relationship management, and shaping customer perception, all of which are crucial to the firm's marketing success (Hartline, Maxham, and McKee 2000). Therefore, understanding salespeople's behavior during M&As can significantly enrich the marketing perspective of M&As.

Second, in terms of outcomes, extant marketing literature on M&As tends to pay more attention to long-term performance measures (Yu 2013), including long-term financial returns (Sorescu, Chandy, and Prabhu 2007), market share and profitability (Homburg and Bucerius 2005), and innovation performance (Prabbu, Chandy, and Ellis 2005). The impact of M&As on the firm's sales performance has received less attention. As an exception, in a study of more than 1000 M&As in different countries over 15 years, Gugler et al. (2003) document a significant decline in sales revenues of merging firms, which is consistent with prior findings on market share dilution after M&As. This decline in sales can be attributed to various reasons, but a possible cause is an impact of M&As on salesperson performance, an issue that has not been thoroughly examined in prior marketing research. Relatedly, if such an impact exists, it is important to understand the boundary conditions thereof, to better manage its effect.

Third, in terms of drivers of M&As success and failure, research on the importance of external image mismatch in M&As is lacking. I define the *external image* as the perceptions that organization members believe others outside the organization hold of the organization (Brown et al. 2006; Dutton, Dukerich, and Harquail 1994) and *external image mismatch* as the extent to which the external images of the acquirer and the acquired are dissimilar. In marketing, external image mismatch is particularly important for at least two reasons. Substantively, more than 30% of the M&A transactions involve organizations with different images (Wiles, Morgan, and Rego 2012), and a vast majority of executives (87%) rate threats to the organizational image as more important than other strategic risks (Deloitte 2014). Theoretically, prior research (Bhattacharya, Rao, and Glynn 1995; Hatch and Schultz 1997) has shown that external image represents an important driver of firm members' organizational identification (OI), defined as perceived psychological oneness with the organization (Ashforth and Mael 1989). Salesperson OI, in turn, influences both salesperson performance and customer behavior (Homburg, Wieseke, and Hoyer 2009; Maxham, Netemeyer, and Lichtenstein 2008; Wieseke et al. 2009). Thus, insights into the effect of external image fit during M&As on salesperson OI can enrich this M&A literature.

To address these important research gaps, I develop a theoretical framework based on the psychodynamic perspective of social identity theory (Gioia, Schultz, and Corley 2000) and conduct two studies to test my theoretical predictions. In Study 1, I investigate the impact of a firm merging with a poorer-image organization on salesperson OI using longitudinal data embedded in a natural experiment—a merger between a national retailer (focal firm) and a regional retailer. I use objective performance data to

investigate whether this change in salesperson OI compromises sales force performance. Furthermore, I also examine two groups of moderators that correspond to sense-giving and sense-making. *Sense-giving* refers to managerial attempts to guide and shape salespeople's understandings toward a preferred organizational reality (Gioia and Chittipeddi 1991). Conversely, *sense-making* involves constructing meaning among salespeople as they attempt to develop a framework for understanding their organization. Specifically, I examine (1) how various emphases in managers' communication can "give sense" of the merged identity to salespeople in different ways and (2) how salespeople "make sense" of the merged identity, depending on their tenure and perception of social inclusion during M&As. In Study 2, which comprises a scenario-based experiment with 235 salespeople, I replicate and extend Study 1 by investigating the impact of merging with either better-or poorer-image firms and provide further evidence of the underlying mechanism.

In Study 1, I find that merging with a poorer-image firm immediately dilutes salespeople's OI, which in turn reduces their performance. Study 2 further shows that this effect is asymmetrical, such that the OI-enhancement effect is weaker than the OI-dilution effect. More important, in both studies, I find that when the motivation of M&As is a market expansion, a mismatch of the external image is enough to cause OI dilution, but salesperson job satisfaction remains intact. I also find that managers' communication of organizational culture, distinctiveness, and strategic intent differentially moderate this OI-dilution effect of M&As. Furthermore, salespeople's perception of social inclusion and tenure influence this process.

This research makes four contributions. First, by shifting the level of analysis from the firm to the salesperson, I shed additional light on the impact of M&As on the most important drivers of the firm's sales revenues: its sales force and salesperson performance. As market-related performance after M&As is a stronger driver of the firm's financial performance than is cost reduction (Homburg and Bucerius 2005), the empirical evidence represents an important extension of the marketing perspective on M&As. Second, my focus on external image mismatch as the cause of salesperson OI change during M&As complements prior marketing research on M&As that has primarily focused on integration issues and synergies. In doing so, I also provide an alternative explanation for the impact of M&As on the firm's bottom line, an issue that prior research in marketing and allied fields has traditionally attributed to strategic integration and internal cultural issues. Specifically, in Study 1, in regions directly affected by the market-expansion merger, I find that salespeople's OI decreased by 11% right after the merger and before actual integration, which translates into a substantial decrease of 3.4% in sales revenues. Third, I extend the current understanding of M&A influence on the social construction of OI during the "honeymoon" phase that occurs right after a merger but before integration occurs. In addition, the findings of the differential moderating effects of the emphases of managers' communication reveal that internal marketing and communication tactics that are effective during normal times may actually backfire during M&As. Fourth, I shed light on the largely ignored impact of image uncertainty following M&As with a mismatch of an external image, with implications on how the service-profit chain changes during M&As.

Background Literature

Schools of Thought on M&As

I summarize two major schools of thought on M&As and the uniqueness of my research below. At the macro level, the strategic management school generally focuses on strategic fit issues. As I mentioned in the introduction, the majority of prior marketing research has primarily drawn from this school. However, no research in marketing has investigated how M&As influence salespeople. At the micro level, the organizational behavior and social psychology school focus on sociocultural issues of M&As.

My research applies the micro level school of thought to the marketing domain but diverts from this school in several ways. Most importantly, I focus on the impact of the mismatch of external image of the two merging firms on salespeople during the honeymoon phase and before actual integration takes place. These shifts in focus shed light on the neglected effect of external image, a marketing construct that figures predominantly in research on internal marketing (e.g., Wieseke et al. 2009) and marketing firms' identity (e.g., Bhattacharya, Rao, and Glynn 2005; Brown et al. 2006), on the sales force, an internal stakeholder whose behavior has important implications on the firm's marketing and sales performance. Furthermore, I enrich the current understanding of identity construction during M&As by delineating between sales managers' sense-giving and salespeople's sense-making.

OI and External Image

OI. Building on social identity theory (Tajfel 1974), Ashforth and Mael (1989) developed the concept of OI. Research in the marketing domain has shown that OI is a

strong driver of salesperson and business unit performance, beyond job satisfaction, and has the potential to spill over to customer identification with the firm (e.g., Bhattacharya, Rao, and Glynn 1995; Homburg, Wieseke, and Hoyer 2009; Maxham, Netemeyer, and Lichtenstein 2008). Why do people identify with their organization? My literature review reveals three main reasons: *to enhance their own self-esteem,* which reflects their subjective, emotional evaluation of their own worth (Ashforth, Harrison, and Corley 2008); *to maintain consistency in their self-views* (beliefs and feelings about themselves), over time and across roles (also known as self-verification; Swann, Stein-Seroussi, and Giesler 1992); and *to accentuate their self-distinctiveness in interpersonal contexts* (Mael and Ashforth 1992; Tajfel 1974).

External image. The extent to which people identify with an organization depends on how its identity satisfies the three motives. Here, organizational identity refers to "who do we think we are" as an organization (Gioia, Schultz, and Corley 2000, p. 69). Within the firm, culture "forms the context within which identity is established, maintained, and changed" (Hatch and Schultz 1997, p. 363). Externally, the way outsiders perceive firm members "can influence organizational identity as members mirror themselves in the comments (and complaints) about the organization made to them by their external contacts" (Hatch and Schultz 1997, p. 362). According to the psychodynamic approach to identity (Gioia, Schultz, and Corley 2000), it is this interrelationship among organizational culture, organizational identity, and external image that makes organizational identity a relatively fluid, unstable, and mutable concept. Drawing from this perspective, prior research has focused primarily on internal organizational cultural issues as the cause of OI change. By focusing on the transitional

phase, which does not involve internal cultural issues that are more prevalent during the integration phase, I can single out the effect of the mismatch of the external image during M&As as the cause of salesperson OI change.

As boundary spanners, salespeople are more frequently exposed to external stakeholders' evaluations of the firm than other types of employees. Salespeople's self-image is tied to the external image of the firm because they use the organization's image to gauge how outsiders (e.g., customers) judge its character and, by extension, their own character. Any change in the firm's image likely affects how external observers view not just the firm but also its employees (Brown et al. 2006). Such an image change is a common result of M&As. Therefore, I investigate the psychodynamics of OI during M&As, marking a major departure from the majority of empirical work that regards OI as static.

Conceptual Framework and Research Hypotheses

Conceptual Framework

My conceptual framework (see Figure 1) encompasses research hypotheses that are tested in two studies. In Study 1, I propose that M&As with a poorer-image firm adversely affect, or dilute, salespeople's OI, which in turn reduces their performance. I also examine managerial and salesperson factors that might mitigate or exacerbate any negative changes in OI due to M&As. At the manager level, I focus on three sense-giving moderators that capture managers' communication emphases on organizational culture, organizational distinctiveness, and strategic intent. I chose these three communication emphases as they represent the past (culture), future (strategic intent), and distinctive elements of the organization. I define an *emphasis on organizational culture* as the level of emphasis a manager puts on shared values, beliefs, symbols, and artifacts (Barney1986; Deshpandé and Webster 1989; Schein 1984). An *emphasis on organizational distinctiveness* involves the level of emphasis a manager puts on the elements that distinguish the organization from its competitors. Finally, an *emphasis on strategic intent* refers to the level of emphasis a manager puts on the organization's purpose, goals, and future direction. At the salesperson level, I focus on salesperson tenure and social inclusion. *Salesperson tenure* refers to how long a salesperson has been with the organization. *Social inclusion* is a salesperson's perception of the prevalence of a team spirit in the organization. In Study 2, I examine the effect of M&As with either a poorer-image firm or a better-image firm on salesperson OI. I also attempt to replicate the moderating effects of the two salesperson-level moderators.

Impact of M&As on Salespeople's OI

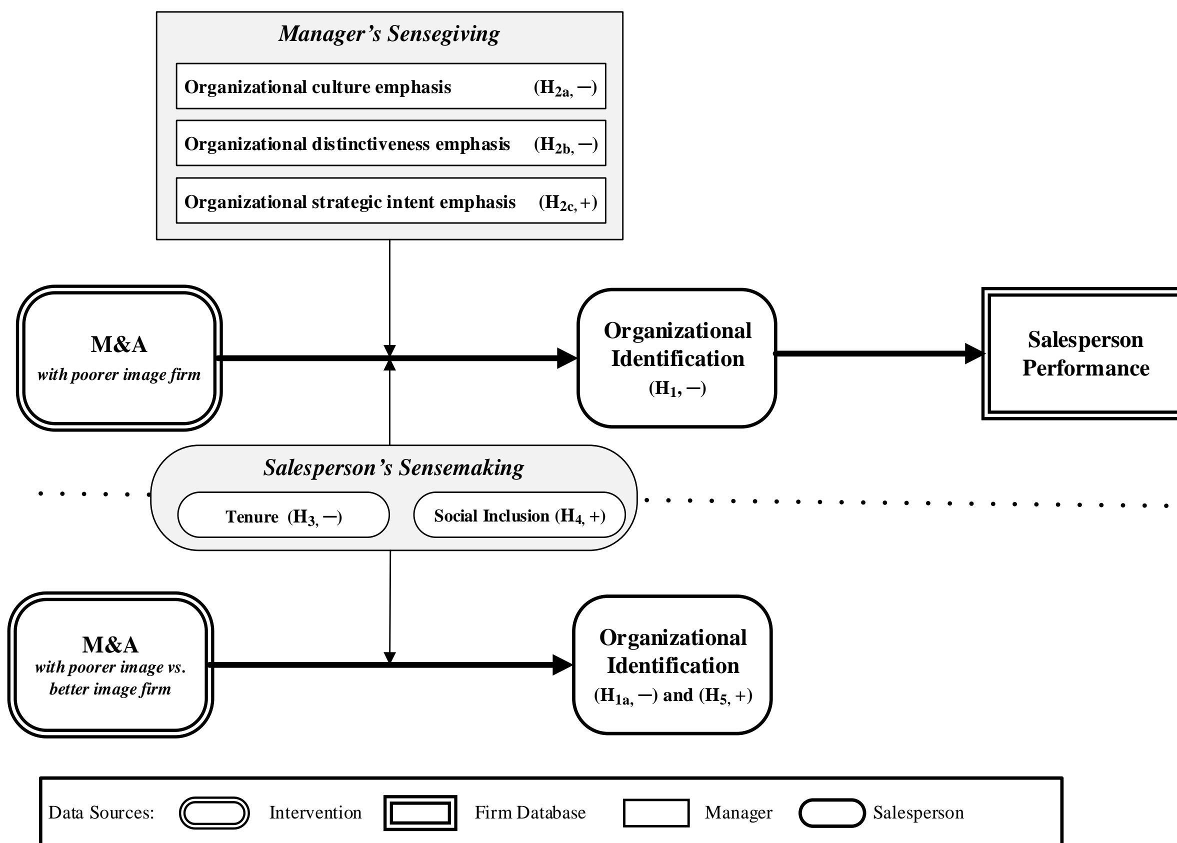
In M&As in which the two organizations have different external images, a central concern is what changes they will shape in the external images of each party (Haunschild, Moreland, and Murrell 1994). This concern is particularly robust in M&As with poorer image firms due to any negative spillover of a poorer image (Štrach and Everett 2006). I argue that this compromised external image transfers to employees (Sutton and Callahan 1987), resulting in a threat to their three motivations to identify with the firm, namely self-esteem, self-verification, and self-distinction motives (Eilam and Shamir 2005).

First, people's self-esteem forms and shifts partly according to their beliefs about how others view their employing organization. In a merger with a poorer-image firm, the image of the focal firm is compromised. Because salespeople use this image to understand how outsiders perceive them, a compromised image creates a poor-image shock that threatens their self-esteem. In turn, salespeople are likely to reduce their identification with the organization to protect their self-esteem. Second, people are drawn to organizations that they perceive as similar to them because this link enables them to remain consistent over time and across roles. However, during a merger with a poorer-image firm, the impaired organization's image creates a discontinuity, triggering self-verification motives and thus efforts to gather feedback from others to confirm perceptions of the self (Van Knippenberg and Van Leeuwen 2001). To obtain self-verifying responses from others, salespeople likely distance themselves from the firm whose image is compromised. Third, people gain a sense of distinctiveness from their organization's distinctiveness. Since a merger with a poorer-image organization can also compromise these distinctive elements, salespeople's psychological oneness with the

focal firm will likely decline. Taken together, a merger with a poorer image firm likely has an adverse influence on salesperson OI through the three individual motives. Because OI, in turn, is a strong predictor of salesperson performance (e.g., Wieseke et al. 2009), I propose the dilution of OI as the mechanism that leads to a decrease in salespeople's performance. Formally,

> H_1: When their employing organization merges with an organization with a poorer image, (a) salespeople's OI weakens, which (b) leads to lower sales performance.

Figure 1 Conceptual Framework: Effect of Merger on Salespeople



Boundary Conditions of the Impact of M&As

Understanding the boundary conditions of M&As necessitates understanding the process of how salespeople come to identify with the organization. As I mentioned earlier, the two fundamental processes of identification with the organization are sense-giving and sense-making.

Sense-giving. Communication by management is an important component in inducing identification with the organization (Bartels et al. 2007; Smidts, Pruyn, and Van Riel 2001). However, previous research has largely ignored the specific communication emphases that managers use to shape identification. Moreover, its role in diluting and/or enhancing OI during a change event has not been thoroughly examined. In this research, I identify three managerial actions that are important in inducing OI: an emphasis on organizational culture, an emphasis on organizational distinctiveness, and an emphasis on strategic intent.

Organizational members who believe that their organization has a superior culture are likely to experience strong levels of OI (Dutton, Dukerich, and Harquail 1994). More importantly, both organizational culture and organizational image influence OI (Ravasi and Schultz 2006). Therefore, highlighting the cultural elements of an organization during normal times can enhance OI. However, M&As with a poorer-image firm prompt salespeople to reflect on their own identity in relation to existing organizational self-definitions that are embedded in cultural understanding (Hatch and Schultz 1997). When this happens, any differences between the internal and external views of the organization create a discrepancy in salespeople's identity in that they view themselves more positively than outsiders do. To maintain consistency in their identity, the salespeople are

likely to distance themselves from the merged organization. Because salespeople working for a manager who emphasizes the cultural elements in his/her communication are reminded of the firm's values and norms, their current identity is stabilized, driving them to become more backward looking and protective of those values and norms (e.g., Schein 1990). As a result, they experience greater discrepancy in their identity and are likely to exhibit more dilution in their OI (Van Knippenberg and Van Leeuwen 2001).

Furthermore, as people are intrinsically motivated to maintain positive distinctiveness, salespeople who believe that their organization is distinctive are likely to possess strong levels of OI (Dutton, Dukerich, and Harquail 1994). Therefore, salespeople working for managers who emphasize the distinctive elements of the organization during normal times should exhibit higher OI. However, when merging with a poorer-image organization, these salespeople are likely to perceive higher image differences between the two organizations, which creates a greater discrepancy in self-image. As we argued previously, to protect their self-esteem and maintain self-continuity, these salespeople are likely to exhibit more dilution in their OI.

In contrast, managers can protect their salespeople's OI after a merger by emphasizing strategic intent, such as reminding salespeople about the firm's mission, vision, and strategic direction. During times of upheaval, articulating the organization's strategy and vision destabilizes salespeople's current identity. Such an emphasis, therefore, enables salespeople to become more forward-looking in their interpretation of the merger and focus on desired future image rather than the current issues (Gioia and Thomas 1996). As a result, they become more understanding of the necessity and uncertainty associated with the merger. The perceived necessity of the merger (Giessner

2011) and reduced uncertainty (Ullrich, Wieseke, and Van Dick 2005) should offset the negative impacts of the M&A on OI. Thus, I hypothesize:

> H_2: When their employing organization merges with an organization with a poorer image, salespeople working for a manager who puts a stronger emphasis on the organization's (a) culture or (b) distinctiveness experience more dilution in OI, whereas salespeople working for a manager who puts a stronger emphasis on its (c) strategic intent experience less dilution in OI.

Sense-making. Sense-making is essentially a social process in which, through informal communication, salespeople come to understand the organizational values, emulate them, received feedback, and, finally, internalize them. Sense-making leads to identification through three distinct paths: epiphany, emulation, and exploration (Ashforth, Harrison, and Corley 2008; Pratt 1998; Press and Arnould 2011). Epiphany occurs when a salesperson feels an immediate connection with the organization. Emulation is a process in which a salesperson develops identification with the organization after multiple occurrences of sense-giving and sense-making efforts. In the exploration path, salespeople compare the ideal represented by the organization and their life as a whole and use the organizational elements to define their own identity.

The longer a salesperson remains with an organization, the more opportunities he or she has to emulate and explore identities of self and the organization. This process not only makes membership in the organization more salient than other memberships (Kramer 1991) but also narrows the gap between the self and the organization. Therefore, the person begins to define the self predominantly as a member of this organization, manifested in the form of strong OI (Mael and Ashforth 1992). Accordingly, longer-tenured salespeople should have stronger OI. Furthermore, when the elements that define

the organization change, their individual motives for OI are affected more than they are among shorter-tenured salespeople. In particular, the negative change in the organization's image is a greater threat to the self-esteem of longer-tenured salespeople, who derive their self-esteem mainly from this salient organizational membership. Similarly, the organization is their principal source of distinctiveness, so a loss of organizational distinctiveness makes it more difficult for longer-tenured salespeople to remain distinctive. Finally, as these salespeople likely have a deeply rooted sense of identification—what Rousseau (1998) refers to as deep structure identification—the discontinuity in the organizational image poses a greater threat to the continuity of their own self-image. Thus:

> H_3: When their employing organization merges with an organization with a poorer image, longer-tenured salespeople experience more dilution in OI.

When salespeople perceive high social inclusion, they feel accepted and part of the team and thus emulate the organizational values more than the salespeople who have low social inclusion. Moreover, social acceptance leads to higher self-esteem (Leary et al. 1995), and the shared spirit and trust reduce uncertainty in the environment. Therefore, social inclusion should increase OI (Haslam et al. 2005). Thus, because higher social inclusion leads to information sharing, open discussions, and strong emotional and social support (Boyt, Lusch, and Mejza 2005), I expect social inclusion to act as a buffer to threats that arise during M&As. Lower uncertainty also should help mitigate the negative effects of M&As on OI (Ullrich, Wieseke, and Dick 2005). In contrast, people who sense low social inclusion have less information, receive less emotional or social support and experience greater uncertainty. Thus:

H_4: When their employing organization merges with an organization with a poorer image, salespeople who are socially included experience less dilution in OI.

Study 1: A Natural Experiment

Empirical Context

I examine a merger between a national retailer and a regional retailer in the United States. Both retailers sell six to ten national brands of durable goods, at prices ranging from $199 to $4,500. They employ between two and four salespeople per store to sell products to consumers. The selling task is individual, so each sale is attributed to one salesperson. At the time of the merger, the regional chain had a presence in two states, and the national retail chain had a broad presence in multiple states, mainly in the southern and western regions of the United States, including the two states in which the regional chain operated. These two states constitute the overlapping region and the region where only the national retailer had a presence is the non-overlapping region. At the time of their merger, estimated annual revenues were $700 million for the national retailer and $230 million for the regional retailer, earned in 600 and 180 stores, respectively. In the overlapping region, the national retailer had 240 stores, with approximate revenues of $300 million. Thus, I can infer that the national retailer derived roughly half its business from the overlapping region, and within that region, the two retailers were of comparable size.

This merger provides a compelling context for examining the impact of a merger with a poorer-image organization on OI for three reasons. First, the retailers had starkly different organizational images. The national retailer was known to be customer oriented, which was reflected in the Better Business Bureau's (BBB) accreditation standards. In contrast, the regional chain was rated much lower, primarily from consumers' complaints

of deceptive sales and marketing practices. Employees echoed similar sentiments about the organizations. According to the Glassdoor (2014) survey, 70% of the employees of the national retailer would recommend their workplace, while less than 30% of employees of the regional chain would recommend working for their retail chain. Given this context, the salespeople in the overlapping region were concerned about the negative spillover effect of the regional retailer's image. In contrast, the salespeople in the non-overlapping region were not aware of or concerned about the regional retailer's image. Therefore, the national retailer's image was at risk only in the overlapping region. As such, the national retailer's salespeople working in the overlapping region represent the treatment group, and the salespeople working in the non-overlapping region offer a control group. This exogenous variation provides a natural experiment. Moreover, this comparison is reasonable given that the national retailer earned roughly half its business from each region.

Second, the merger was not a threat to salespeople's employment opportunities. Specifically, the CEO of the national retailer conveyed on the day of the merger announcement that the purpose of the merger was for market expansion and specified that the merger would not affect the employment opportunities at the parent firm. In other words, there was no uncertainty about the salespeople's future employment. As a result, the salespeople were not worried about their job prospects but instead were concerned about the salient image differences between the retailers. This enables us to tease out the impact of image differences on the salespeople's OI.

Third, the integration of the two retailers did not take place during the study period; rather, the merger announcement stated that the integration of the two retailers

would begin in six months. As a result, there were no operational changes (e.g., redeployment of sales forces, changes in procedures or policies) during the study period. This helps us rule out confounds that could have an impact on OI. For example, cultural differences, an often-cited reason for merger failures, could come into play during the integration process and affect OI. As there were no such confounds during the study period, I could tease out the effect of image differences. In addition, the merger announcement stated that the operational changes during the integration process would be minimal at the national retailer. This further strengthens my argument that operational changes do not confound my results.

Data

I aim to assess the impact of the merger on salespeople employed by the national retailer, which is the focal firm for my study. The national retailer provided personnel records and permitted us to collect survey data from these salespeople. The personnel records include information on individual sales performance, tenure, and other observational data. To collect primary data, I sent out surveys each month, starting six months before the merger announcement and continuing until six months after it. I thus collected data over a span of 13 months. In the salesperson survey, I included items to capture OI and social inclusion. I also conducted a separate survey of these salespeople's managers to capture their OI-building efforts.

In each of the thirteen months, I sent surveys to all 3000 salespeople and all 80 managers. After excluding salespeople who answered either only before or only after the merger, I retained 2054 responses from 367 salespeople and 458 responses from 64 managers.

Measures

I measured OI with the well-established Mael and Ashforth's (1992) six-item scale. To measure social inclusion, I adapted Jaworski and Kohli's (1993) esprit-de-corps scale. I measured performance in terms of both quota achieved and revenue.

For the managerial actions—emphasis on organizational culture, distinctiveness, and strategic intent—I developed new measures. I integrated Barney's (1986) and Schein's (1984) definitions of culture to develop measures for communication emphasis on culture. I used Albert and Whetten's (1985) conceptualization of distinctiveness and enduring characteristics of an organization to develop measures for communication emphases on distinctness and strategic intent, respectively. I generated a pool of sample items and refined them based on feedback from sales executives and managers of the focal organization, as well as academic researchers. I pretested the measures with 56 salespeople; after further refinement of the items, I conducted another pretest with 30 salespeople.

In line with Bagozzi and Yi's (2012) recommendations, all alpha coefficients and composite reliabilities are greater than .70. Table 1 contains the correlations and descriptive statistics, as well as reliability and validity estimates when appropriate, for the variables used in this study. In addition, I conducted a test of discriminant validity for the three managerial actions. The average variance extracted (AVE) for the three managerial actions are .70, .64, and .75 respectively. All the three constructs have an AVE that is higher than any of the bivariate correlations between them, establishing the discriminant validity (Fornell and Larcker, 1981). A full list of the construct measures is in the Appendix.

Table 1 Correlations and Descriptive Statistics

Variables	1	2	3	4	5	6	7	8
1. OI								
2. Tenure	.06**							
3. Social inclusion	.43**	.05**						
4. Emphasis on org. culture	.05*	.05**	–.02**					
5. Emphasis on org. distinctiveness	.11**	–.06**	.11**	–.40**				
6. Emphasis on strategic intent	.26**	.03**	.16**	–.18**	.26**			
7. Performance (sales/quota)	.14**	.03**	.07**	.02	–.02**	.01		
8. Performance (monthly revenue)	.15**	.09**	.09**	.06**	–.06**	.05**	.43**	
Mean	5.99	680	5.78	5.89	4.77	5.23	1.00	37749
SD	1.10	833	1.02	.66	.61	.94	.59	17608
Cronbach's alpha	.96		.96	.83	.93	.92		

Notes: The correlation coefficients and the descriptive statistics are computed by using the salespeople as the cross-section. The total number of observations = 2098. ** $p < .05$.

Empirical Models

To estimate the effect of the merger on the salespeople's OI, an experimental setting would ideally include two similar organizations and compare their salespeople's OI after one of the randomly chosen organizations merged with a poorer image organization. To approximate this ideal, I compare changes in the OI of the salespeople who are affected by the merger (i.e., in the overlapping region) with changes in the OI of the salespeople from the same organization who are not affected (i.e., in the nonoverlapping region).

(Panel) Fixed effects difference-in-differences. I use the following specification for a fixed effects model to estimate the effect of the merger on OI:

$$OI_{it} = \alpha_i + \lambda_t + \beta_1 \times T_{it} + \varepsilon_{it}, \qquad (1)$$

where subscript i refers to a salesperson and subscript t to the period (month); OI_{it} is salesperson i's OI in period t; α_i are salesperson fixed effects that are unobservable but

constant over time; λ_t are period fixed effects, which capture any unique period effects that influence all salespeople; T_{it} is equal to 1 if salesperson i is affected by the merger by time t; and $\beta_1$is the coefficient of interest that captures the causal effect of the merger on salespeople's OI in the focal firm. The specification in Equation 1 produces unbiased treatment effect only if the error term ε_{it} is uncorrelated with the independent variables. This correlation might arise for various reasons (e.g., self-selection, reverse causality, confounding). Therefore, I leverage my empirical setting to overcome these problems. First, in a natural experimental setting, self-selection into treatment and control groups would make the error term and the treatment variable correlated. In my study, this concern might arise if salespeople could anticipate the merger decision and self-select into groups that would be affected or not. However, top management made the merger decision in confidence, with the salespeople only learning about it when it was publicly announced. Second, the error term could correlate with the treatment if the assignment of treatment and control groups was influenced by the dependent variable (reverse causality), such that the merger decision was taken because of OI. I rule out this possibility. The dependent variable OI had not previously been measured by the organization, so it was unlikely to be a factor driving the merger decision. In addition, as I show subsequently, OI was stable before the merger announcement and unlikely to have drawn management attention. Third, if the treatment and control groups experience different events after their assignment, it would be difficult to estimate the true treatment effect. However, the integration of the two retailers did not begin during the study period. Therefore, the treatment group did not experience any operational changes directly after the merger. This helps us rule out confounds such as operational changes that typically play a vital

role in successful integration. Moreover, the merger announcement stated that any operational changes during the integration process would be minimal at the national retailer. This further strengthens my argument that actual or anticipated operational changes do not confound my results. Fourth, if the salespeople in the treatment group were concerned about their future job prospects, in addition to the image differences, this job uncertainty might affect OI. However, the purpose of this merger was for market expansion, and the salespeople were assured that there would be no job layoffs. That is, there were no abnormal firings or voluntary exits during the study period. Given this context, we are able to estimate the causal effect of merging with a poorer-image organization on salespeople's OI.

Multilevel model. I hypothesize that the treatment effect varies depending on salesperson characteristics (tenure and social inclusion) and managerial communication (emphases on culture, distinctiveness, and strategic intent). As Figure 1 shows, two of the moderating relationships operate at the level of the salesperson (Level 1), and the managerial actions operate at the level of the sales district (Level 2). Given this, the classical regression assumptions are difficult to meet. Thus, I employ a multilevel modeling approach that relaxes these assumptions and helps us assess these moderating relationships. To test the full model, a moderated-mediation model, I adapt Preacher and Hayes's (2004) procedure for my context. The essence of Preacher and Hayes's (2004) method is to use the bootstrapped standard errors for inference. However, the random sampling used in the standard bootstrapping assumes i.i.d. of observations and, as such, does not account for the cross-sectional and time-series dependence. As the salespeople are nested within districts (cross-sectional correlation) and salesperson-level observations

over time (time-series correlation), the standard bootstrapping techniques do not provide reliable standard errors. Therefore, I use block-bootstrapped standard errors, which retain the panel structure of the data (Lahiri 1999).

Results

In Table 2, I provide the descriptive statistics for the treatment and control groups before the merger, showing that the two groups are similar. I calculated standardized mean differences by dividing the difference in means by the standard deviation of the treatment group. The standardized mean differences for all variables were below .25, indicating a good balance between the groups.

Table 2 Comparison of Treatment and Control Groups before Merger

	Control Group		Treatment Group			
	Mean	**SD**	**Mean**	**SD**	**Mean Diff**	**Standardized Mean Diff**
OI	6.01	1.05	6.01	1.12	.00	.00
Tenure	767	829	750	868	–17	.02
Social inclusion	5.72	1.05	5.79	1.00	.07	.07
Emphasis on org. culture	5.88	.75	5.86	.61	–.03	–.04
Emphasis on org. distinctiveness	4.81	.68	4.75	.54	–.06	–.11
Emphasis on strategic intent	5.28	.55	5.38	1.16	.10	.09
Performance (sales/quota)	1.01	.68	1.00	.67	.00	–.01
Performance (monthly revenue)	36148	15367	38565	18044	2417	.13

I depict the mean OI values and salesperson performance for the treatment and control groups for each period, before and after the merger in Figure 2 and Figure 3 respectively. Before the merger, the mean differences are not statistically significant, and OI is stable for both the treatment and control groups.

Figure 2 Average Salesperson OI Before and After Merger

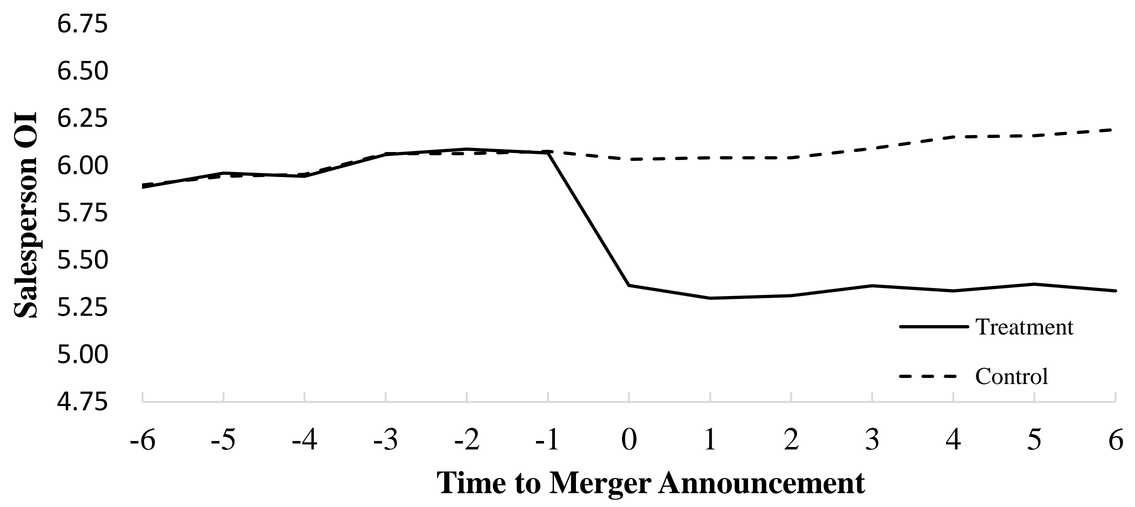
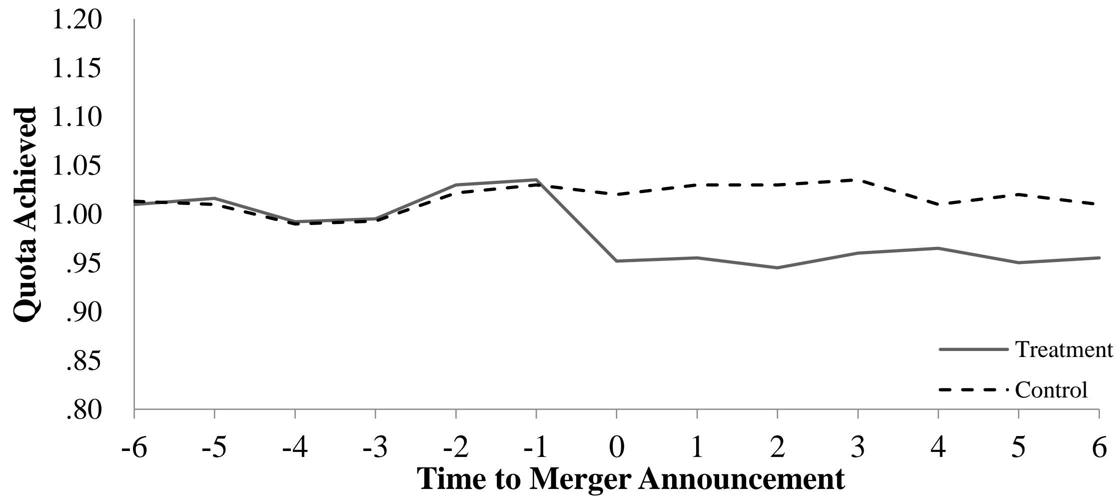


Figure 3 Average Salesperson Performance Before and After Merger



To test H_1, which predicts a merger with an organization that has a poorer image destabilizes the OI of salespeople in the focal organization and reduces their performance, I first compared the OI trajectories of the treatment and control groups before and after the merger. The OI in the treatment group declined (mean difference = –.674, $p < .01$) from the pre- ($OI_{pre} = 6.011$) to the post- ($OI_{post} = 5.336$) merger periods; in

contrast, the merger did not affect the control group's OI (mean difference = –.076, n.s.; $OI_{pre} = 6.010$, $OI_{post} = 6.078$). As Figures 2 and 3 show, the OI and performance of the treatment group declined sharply at the merger announcement date, while the control group's OI remained stable. This model-free estimation thus supports my contention that an M&A can destabilize salespeople's OI and performance.

Panel fixed effects difference-in-differences estimation. I next estimated the treatment effect through fixed effects difference-in-differences estimation. The results of this estimation in Table 3 reveal a significant treatment effect (Model 1: $\beta = -.749$, $p < .01$), which support H_{1a}, because an M&A with a poorer-image firm reduces salespeople's OI. Then, I tested H_{1b} through mediation analysis (Preacher and Hayes 2004). The results show that the merger had an indirect effect on quota achieved (–.078, $p < .01$) and on revenue (–3199.3, $p < .01$), supporting $H_{1b.}$ Therefore, combining the above the results, I find support for H_1, my central hypothesis.

Multilevel analysis. In the next step, I considered the main effects of tenure, managerial actions, and social inclusion and the heterogeneous treatment effects on OI (Table 3, Model 2). As tenure increased, so did OI ($\beta = .001$, $p < .05$). Salesperson OI also increased when managers emphasized the culture ($\beta = .202$, $p < .01$), distinctive ($\beta = .141$, $p < .05$), and strategic ($\beta = .130$, $p < .05$) elements of the organization. The extent to which salespeople felt socially included also increased OI ($\beta = .462$, $p < .001$). These expected signs and statistical significance for the main effects affirm prior literature that describes how these factors improve salesperson OI.

Regarding the hypotheses, I find that the managers' actions had unique effects on the dynamic merger environment. In particular, and in support of H_{2a}, when managers

emphasized the culture of the organization, the harm to their salespeople's OI was exacerbated (β = –.125, $p < .05$). However, though in the hypothesized direction, emphasizing the distinctiveness did not affect salespeople's OI (β = –.104, n.s.), so I cannot confirm H_{2b}. In support of my prediction that emphasizing strategic elements insulates salespeople from the negative effects of the merger, H_{2c}, I found that such an emphasis by managers mitigated the dilution in salespeople's OI (β = .224, $p < .001$).In addition to these sense-giving effects, I find that salespeople's sense-making affects the change in their OI. I find that the dilution in OI due to the merger becomes even more dramatic when the salesperson's tenure is longer (β = –.001, $p < .01$), in support of H_3. In support of H4, the results show that salespeople who felt socially included exhibited less dilution in their OI after the merger (β = .227, $p < .001$).

As a robustness check, I followed the guidelines prescribed by Bertrand, Duflo, and Mullainathan (2004) to provide more confidence in my difference-in-differences specification. Bertrand, Duflo, and Mullainathan (2004) show that not controlling for the serial correlation in a difference-in-differences specification can lead to inflated t-statistics and, thus, over rejection of the null hypothesis. The authors examined three solutions to the problem and tested their performance with the help of simulations. First, they show that econometric correction, which places a specific parametric form on the time-series process, does not perform well. Second, methods based on bootstrap and approximation of asymptotic variance–covariance matrix work well only when the number of "groups" is moderate to high. Third, collapsing the time-series information into pre- and post- periods and explicitly taking into account the effective sample size works well for evena small number of groups. As we have only two "groups"—one

treatment and one control condition—the most appropriate method is to ignore the time-series information and perform the difference-in-differences analysis on the two periods. As seen in Model 3 of Table 3, the results are consistent under a two period difference-in-differences specification.

Table 3 Merger, Salesperson, Manager, and Social Effects on Salesperson OI

Variables	(1) Fixed Effects Diff-in-Diff	(2) Multilevel Diff-in-Diff	(3) Diff-in-Diff with Two Periods	Hypotheses
Constant	6.173*** (.072)	6.547*** (.188)	6.464*** (.188)	
Merger Effects				
Treatment dummy		–.159 (.091)	–.051 (.089)	
Treatment effect	–.749***(.105)	–1.272***(.176)	–1.353***(.194)	H1a: supported
Salesperson Effects (Sense-making)				
Tenure		.001**(.000)	.001**(.000)	
Social Inclusion		.462***(.026)	.375***(.056)	
Manager Effects (Sense-giving)				
Emphasis on org. culture		.202**(.075)	.243***(.053)	
Emphasis on org. distinctiveness		.141* (.062)	.146* (.067)	
Emphasis on strategic intent		.130* (.056)	.129** (.043)	
Interactive Effects				
Treatment × Tenure		–.001**(.000)	–.001**(.000)	H_3: Supported
Treatment × Social inclusion		.227***(.051)	.256***(.073)	H_4: Supported
Treatment × Emphasis on org. culture		–.125* (.057)	–.144* (.068)	H_{2a}: Supported
Treatment × Emphasis on org. distinctiveness		–.104 (.135)	–.139 (.130)	H_{2b}: Not Supported
Treatment × Emphasis on strategic intent		.224***(.055)	.261***(.057)	H_{2c}: Supported
Time Fixed Effects	Yes	Yes	Yes	

Standard errors (clustered whenever applicable) in parentheses. $^{*}p < 0.05$, $^{**}p < 0.01$, $^{***}p < 0.001$

My moderated-mediation analyses confirm the above findings. I report the results of this analysis in the table below. Regarding managerial actions, I find that emphasis on culture negatively moderates the indirect effect of the merger on quota achieved and revenue whereas emphasis on strategic intent positively moderates the indirect effect of the merger on quota achieved and revenue. However, emphasis on distinctiveness did not moderate the mediated paths for either quota achieved or revenue. I also find that tenure negatively moderates the indirect effect of the merger on performance for both quota achieved and revenue. In contrast, social inclusion positively moderates the indirect effect of the merger on for both quota achieved and revenue.

Table 4 Results from Moderated Mediation Analysis

Effect Decomposition		IV = Performance (Monthly Revenue)	IV = Performance (Sales/Quota)
Overall Indirect Effect of Merging with a poor image organization		–3199.3*** (757.1), CI = [–4683.2, –1715.3]	–.078*** (.015), CI = [–.107, –.046]
Conditional effects			
Moderators			
Emphasis on org. culture			
	Low	–2729.0 (561.6), CI = [–3993.4, –1788.1]	–.067 (.013), CI = [–.095, –.044]
	Medium	–3100.4 (579.5), CI = [– 4352.0, –2091.6]	–.076 (.013), CI = [–.106, –.051]
	High	–3471.8 (620.2), CI = [– 4780.6,–2366.2]	–.085 (.014), CI = [–.118, –.058]
Emphasis on org. distinctiveness		n.s	n.s
Emphasis on strategic intent			
	Low	–3601.1 (665.0), CI = [– 4982.2, –2364.4]	–.089 (.015), CI = [–.121, –.060]
	Medium	–3141.3 (590.9), CI = [– 4369.6, –2059.4]	–.077 (.013), CI = [–.106, –.052]
	High	–2681.5 (536.8), CI = [–3832.9, –1730.8]	–.066 (.012), CI = [–.094, –.043]
Salesperson Tenure			
	Low	–1592.8 (289.7), CI = [–2209.5,–1073.6]	–.030 (.007), CI = [–.047, –.017]
	Medium	–2005.0 (318.6), CI = [–2661.2,–1398.4]	–.040 (.007), CI = [–.057, –.028]
	High	–2417.8 (391.5), CI = [–3173.9,–1651.4]	–.051 (.008), CI = [–.068, –.036]
Social inclusion			
	Low	–3583.1 (661.9), CI = [–4990.3,–2383.7]	–.088 (.015), CI = [–.120, –.060]
	Medium	–3084.6 (580.5), CI = [–4309.9, –2026.5]	–.076 (.013), CI = [–.104, –.051]
	High	–2586.2 (524.5), CI = [–4309.9, –2026.5]	–.063 (.012), CI = [–.090, –.041]

***$p < 0.001$; Low = Mean – Standard Deviation, Medium = Mean, and High = Mean + Standard Deviation.

I also used instrumental variable approach to test the robustness of my main finding. To test the robustness of my argument that a merger affects OI by threatening and changing the organizational image, I use two procedures. First, I offer evidence that the focal firm's image changed after the merger. Second, I confirm that this change led to decreased OI.

For the test of whether the image of the national retailer changed after its merger announcement, I measured its image using Mael and Ashforth's (1992) scale. This image did not change in the control region (Δmean = .01, n.s.) but dropped significantly in the treatment region (Δmean = –.23, $p < .01$), in support of my argument that the organization's image changed after the merger. Next, I tested whether this change in the organization's image led to a decrease in OI. To do so, I performed a mediation analysis,

with the image as the mediating variable and OI as the dependent variable. The results confirmed that image mediated the effect of the merger on OI.

As an alternative approach to demonstrate that the change in image led to a change in OI, I estimated the following equation:

$$\text{Change in OI}_{it} = \Upsilon \text{ Change in Image}_{it} + \varepsilon_{it}, \quad (2)$$

which yields unbiased estimates if "change in image" does not correlate with the error term. However, as in most relationships, this requirement is difficult to ascertain. For example, there could be variables that either are unobserved or determine both image and identification, thus resulting in a correlation between image and the error term. To overcome these concerns, I use an instrumental variable approach. I use the distance to the closest merger partner's (regional retailer) store as the instrument for salespeople's perceived change in the organization image. I refer to this as the *distance to the merger partner*.

To verify that *distance to the merger partner* is a valid instrument, I need to demonstrate that the instrument satisfies the relevance and exclusion restriction criteria. The relevance criterion requires that the instrument predicts change in image and the exclusion restriction requires the instrument to be uncorrelated with the error term. My argument for the relevance of the instrument relies on the following premise: The salespeople's post-merger perceived change in organizational image is greater as the proximity of the salesperson to the regional retailer increases. The presence of a regional retailer store in the geographic vicinity makes the salespeople more aware about the image differences between the two organizations. Thus, the post-merger perceived change in the image could be greater for salespeople who are closer to the regional

retailer, as the poor image of the other retailer is highly salient to them. As the distance decreases, the negative spillover of the merger partner's image is higher, resulting in a greater perceived change in the image. I also empirically test instrument relevance by regressing change in the image on the instrument (*distance to the merger partner*). I find a negative effect (–.001, $p < .01$) of distance on the change in the image.

The exclusion restriction requires that the instrument be uncorrelated with the error term. This correlation may arise due to some omitted variables in the above equation. For example, unobservable salesperson characteristics (e.g. higher-order need for identification) might influence both the perceived change in image and change in OI. However, distance to the nearest merger partner store is not correlated with individual salesperson characteristics. Therefore, I could safely conclude that the instrument satisfies the exclusion restriction criteria as well. Having established the instrument's relevance and exclusion, I performed a two-stage least squares estimation, with distance as the instrument variable. The regression indicated that the change in image prompted a change in OI (2.011, $p < .01$), reaffirming my results.

Study 2: A Scenario-Based Experiment

In Study 2, I design an experiment to (1) build upon limitations of Study 1 by explicitly measuring the external image of the firms and investigate M&As across salespeople from various firms, (2) replicate the key hypotheses to enhance the generalizability of the findings in Study 1, and (3) examine a new hypothesis about the effect of M&As with a better-image firm on salesperson OI (see lower half of Figure 1).

Hypothesis Revisited

In Study 2, I attempt to replicate the effect that salesperson OI declines after a merger with a *poorer* image firm (H_1). Furthermore, I again evoke the three motives of identification with an organization, namely self-esteem, self-verification, and self-distinctive, to hypothesize how salespeople's OI might be affected when their firm merges with a *better* image firm.

In M&As with a better image firm, the external image of the focal firm should increase. In turn, the firm's strategic decision should have a positive impact on salespeople's self-esteem motives, improving their level of identification with the focal firm. As with the case when merging with a poorer-image firm, merging with a better-image firm can still create a discontinuity in the attributes salespeople associate with their firm. Thus, they will still seek self-verification and feedback from others to confirm their perceptions of self. However, the external feedback received in the case of merging with a better-image firm should be positive, improving perceptions of self and drawing salespeople closer to the organization. In contrast with self-esteem and self-verification, the impact of merging with a better-image firm on salespeople's self-distinctive motives

is less clear. Merging with any firm, whether it has a positive or negative image, is likely to change the distinctive elements of the firms. On the one hand, distinctive elements could be enhanced through the improved image. On the other hand, these elements could be compromised, as the merger is likely to lead to other changes in the organization. Overall, I posit that a merger with an organization that has a better image has a positive influence on salespeople's OI through self-esteem and self- verification motives. However, the impact may be mixed for self-distinctive motives. Taken together, I propose that salespeople's OI at the focal firm will be enhanced when merging with a firm with a better image.

> H_5: When their employing organization merges with an organization with a better image, salespeople's OI strengthens.

Experimental Design

I conducted an experiment with participants from the online labor system Amazon Mechanical Turk. The experiment was a between-subjects design with random assignment to one of the two conditions: M&A with a (1) poorer-image organization or (2) better-image organization. As Amazon Mechanical Turk workers have various backgrounds, I carefully screened the subject pool by restricting participation to only those who were currently employed as frontline employees spending at least 25% of their work time with customers. I recruited 235 participants, each representing a different firm and a wide range of industries and selling situations (B2B and B2C).

My experiment consisted of four steps. First, participants were asked about their tenure, perceived social inclusion, external image of their current organization, identification with the current organization, and current job satisfaction. Second, I asked

participants to provide the names of competitors to their current employer that they believed had the best and worst images. In addition, participants rated their perceptions of the public's image of each competitor. Third, I then randomly assigned participants to one of two conditions (i.e., merger with a better- or poorer-image firm). Participants were asked to imagine a scenario in which the CEO of their current organization makes an announcement of a merger with one of the competitors they previously provided. Participants read a passage that informed them that the CEO assured employees that there would be no job layoffs and minimal operational changes. Furthermore, participants were informed that the merger was for expansion reasons only. Fourth, after the merger, participants provided their perceptions of the image, OI, and expected job satisfaction with the newly merged company.

My manipulation checks showed that participants rated the image of the competitor with a better image as significantly higher than the image of the focal firm. Similarly, the image of the focal firm was higher than the image of the competitor with a poorer image (M_{poorer} = 3.29, SD = 1.90; M_{better} = 6.11, SD = .93; M_{focal}= 5.19, SD = 1.25). My manipulation checks indicate that participants were not concerned about layoffs (M = 1.03 out of 7, SD = .95) or operational changes (M= 1.43 out of 7, SD = .89) resulting from the merger.

Results

Confirming my findings from Study 1, I find that when salespeople merged with a poorer-image firm, their OI decreased (diff. in OI= –.904, $p < .001$), in further support of H_{1a}. When merging with a better-image firm, their OI increased (diff. in OI =.497, $p < .001$), in support of H_5. To further explore these two results, I performed a multivariate

analysis of variance to test how a merger affects OI and job satisfaction simultaneously. I find a significant effect of a merger on the combined dependent variables ($F(2, 232) = 14.401$, $p < .001$; Wilks's $\lambda = .890$). However, the test of the between-subject effects shows that a merger affects OI ($F = 58.001$, $p < .001$) but not job satisfaction ($F = .972$, n.s.).

I also test the effect of the two moderating variables—tenure and social inclusion—by regressing post-merger OI on premerger OI, tenure, social inclusion, and the interaction terms. When merging with a poorer-image firm, I find that tenure exacerbates the effect of a decrease of OI ($\beta = -.005$, $p < .01$) while social inclusion mitigates the decrease of OI ($\beta = .345$, $p < .001$), confirming H_3 and H_4. However, tenure ($\beta = -.002$, n.s.) and social inclusion ($\beta = -.083$, n.s.) have no effect on OI when merging with a better-image firm.

The findings of Study 2 complement Study 1’s findings in several ways. First, I directly tested my hypotheses about the impact of external image mismatch as I explicitly measured external image. Second, I successfully replicated the findings of the main effect of M&As with a poorer-image firm and the moderating effects of two sense-making variables. Importantly, I again show that when the purpose of the M&As is clearly explained, salespeople do not experience job uncertainty, as evident by their stable job satisfaction. However, salespeople experience image uncertainty when M&As involve external image mismatches. Third, I also found that though merging with a better-image firm enhances salesperson OI, such an OI-enhancement effect is weaker than the OI-dilution effect of M&As with a poorer-image firm.

Discussion

Theoretical Implications

M&As and sales force. Previous research has largely ignored the role of the sales force in the success of M&As. The increasing importance of marketing and sales functions in organizations (Feng, Morgan, and Rego 2015) implies that salespeople represent important stakeholders, as well as determinants of the success of M&As.

In this regard, prior research in allied fields on M&As indicates that M&As can lead to lower sales revenues and lower market shares. While prior research attributes this issue to performance-inhibiting sociocultural problems during the integration phase and strategic fit, I offer another explanation—M&As that involve a mismatch of the external image can influence frontline salespeople's OI, which in turn can influence selling performance. Thus, my empirical evidence provides unique insights into more nuanced yet substantively important symbolic processes that complement the current marketing approach to study M&As.

Service-profit chain during M&As. The conventional service-profit chain proposes that a firm's financial performance can be improved through a path that connects employee satisfaction, customer orientation, customer satisfaction, and customer loyalty. Homburg, Wieseke, and Hoyer (2009) provide a complementary service-profit chain path based on customer and salesperson identification with the organization. Specifically, they show that salespeople's identification with the organization OI is associated with stronger customer-company identification, which increases customer willingness to pay and loyalty. My research contributes to this view of

the service-profit chain in at least two ways. First, I show that the external image (e.g., customer perception) of the firm can influence salesperson identification. Therefore, I propose that the relationship between salesperson identification and external image is not unidirectional but bidirectional. Second, I identify M&As as a major event that can destabilize the service-profit chain; this situation has not been examined previously.

M&As that involve external image mismatch. While marketing literature has demonstrated that brands and organizations with a superior image attain better performance, it has not thoroughly investigated the role of the image during M&As. To my knowledge, Wiles, Morgan, and Rego (2012) is the only study to examine (stock market) outcomes of acquiring a brand that has a different positioning in the market. Building on this research, I examine the external image mismatch at the organizational level and how this mismatch affects salespeople. My findings not only identify external image mismatch as the cause of salesperson OI change during M&As but also show that the OI-dilution effect in M&As with a poorer-image firm is stronger than the OI-enhancement effect in M&As with a stronger image firm. Given the importance of brand image, marketing firms' lack of control over their external image in the current media-rich era and their lack of attention to how internal stakeholders believe what others think about the firm, my findings provide insights into the influence of external stakeholders on internal stakeholders (e.g., salespeople) and internal marketing envoys (e.g., sales managers).

Internal marketing during M&As. Internal marketing involves viewing employees as internal customers and satisfying their needs and wants while addressing the organizational objectives (Berry, Hensel, and Burke 1976). Wieseke et al. (2009) recast

internal marketing as a process through which managers build employees' OI. I build on this research to examine the role of managers in shaping salesperson OI during M&As. I found that the emphasis of a sales manager's communication during M&As can provide salespeople with organizational meaning that helps them cope with image uncertainty resulting from M&As. An emphasis on organizational culture reinforces the existing organizational identity, further exacerbating the adverse effect of M&As with a poorer-image firm on salesperson OI. In contrast, an emphasis on strategic intent destabilizes the existing organizational identity, convincing salespeople to be open to identity change and thereby buffering the adverse effect. These findings shed light on the psychodynamic of identity in times of change and contribute to the current understanding of internal marketing issues during M&As and the role of communication in M&As.

Types of salesperson uncertainty during M&As and remedies. I found that during M&As that involve market expansion and a poorer-image firm, salesperson job satisfaction remains stable. Therefore, my research reveals the hidden effect of image uncertainty during M&As. Unlike prior research on organizational behavior that attributes the OI-dilution effect of M&As to job uncertainty, thus threatening employees' and managers' sense of continuity (Rousseau 1998), my studies provide experiment-based evidence that this OI-dilution effect can arise from image uncertainty due to a mismatch of the external image between two merging firms. Furthermore, in both studies, I found consistent evidence that salespeople's tenure and perception of social inclusion help them make sense of organizational identity during M&As. This finding complements prior research on how employees cope with an organizational change such as M&As and the corresponding uncertainty (e.g., Elstak et al. 2015).

Managerial Implications

M&As and the sales force. During M&As that involve mismatches of an external image, salespeople experience image uncertainty that may potentially reduce their OI and, in turn, impair their sales performance. I also reveal that salespeople do not experience job uncertainty when the purpose of the M&A is clearly explained to them. These findings have two implications. First, in addition to paying attention to strategic integration and internal cultural issues as prior research suggests, sales managers must be cognizant of the OI-changing impact of the mismatch of the external image on their salespeople. As I alluded to at the beginning of this article, in many contexts customers develop perceptions of the firm through their interactions with frontline employees (e.g., salespeople); the contagious effect of low-OI salespeople on customers is too important to be ignored. Second, the stability of job satisfaction during M&As is not quite diagnostic of the potentially adverse impact of M&As. Salespeople can provoke a decline in the firm's sales revenues and market share, due to their disenchantment with the merged organization, while still being satisfied with their job.

M&As and organizational external image. My findings underscore the need to assess the compatibility of organizational external images as part of the M&A due diligence process. If internal stakeholders rely on the organization's image to satisfy their self-image needs, M&A decisions that consider the compatibility of organizational images might achieve greater success with integration (c.f., Zaheer, Schomaker, and Genc 2003). Furthermore, consumer-generated media significantly weakens firms' control over their external image. Therefore, managers need to develop a systematic way to monitor and potentially influence internal stakeholders' perceptions of how customers

view the firm. This is especially important for sales forces.

Managers' communications during M&As: remedies or poison? Managers undeniably help build their salespeople's OI though the way they think, feel, and act (e.g., Wieseke et al. 2009). However, my findings reveal that the same internal marketing actions that enhance OI in stable periods can be detrimental in times of change. Most OI research suggests that communicating organizational characteristics helps build OI (e.g., Smidts, Pruyn, and Van Riel 2001), but my empirical findings caution against this tactic during M&As. Specifically, a managerial emphasis on organizational culture or distinctiveness can promote OI in general but exacerbate the decline in OI during M&As. In contrast, an emphasis on strategic intent promotes OI in both stable and dynamic environments. The substantial performance implications of OI suggest that managers should be aware of the possible negative effects of their actions on OI.

Salesperson tenure and social inclusion: remedies or poison? My research affirms the general prediction of positive performance effects of tenure by demonstrating the positive relationship between tenure and OI (Mael and Ashforth 1992), which in turn enhances performance. However, my findings also show that the OI of longer-tenured salespeople is more susceptible to disruptive change. This result complements prior research that show that during organizational changes, older employees often feel disconnected with the new organization, so they are more likely to leave (Baron, Hannan, and Burton 2001). Thus, during times of organizational change, managers should focus on longer-tenured salespeople.

Limitations and Further Research

Some limitations of this study may restrict its interpretation and scope. In both my studies, I focused on salespeople employed by the focal organization. Given the confidential nature of the merger in Study 1, I was unaware that the focal organization was planning to merge with the regional firm. As a result, I did not examine the OI of salespeople employed by the acquired, regional firm. Further research could examine the indoctrination process of acquired salespeople—how these salespeople develop OI with the new firm. In addition, I focused on salespeople's identification with the overall organization. However, identification can occur at different levels of the organization (Elstak et al. 2015)—the store, region, managers, corporate headquarters, overall firm, and so on. Examining OI at different levels could help determine which level aids the most in shielding OI during organizational changes.

I focused on how changes in OI influenced performance; however, salespeople's customer orientation and motivation might also be important outcomes to examine. Moreover, I focused on the period before the integration began. It would be valuable to understand the dynamics of OI before, during, and after the integration of the merging entities. Such an examination can also investigate whether and when salesperson OI can bounce back.

My research investigated how managers can help their salespeople make sense of a major organizational change. My theorization is based on social identity literature, which suggests that managers with high OI communicate in ways that are consistent with their OI, which in turn influences their subordinates' OI (e.g., Wieseke et al. 2009). Additional research might address this point explicitly by measuring both salespeople's

and their managers' OI simultaneously. In addition, examining the changes in communication content may provide actionable insights. In my research, the firm chose to communicate the details of the merger as it occurred rather than preannouncing it because management did not expect any negative consequences for employees. However, the timing and frequency of managerial communication are also important, and further research in this area in the sales force is needed.

Finally, many factors such as the relative size of the merging organizations (e.g., Bargeon, Lehn, and Smith 2015) could influence OI, and subsequently, the success of M&As. In addition, uncertainty could occur in the form of image, financial, and/or job uncertainty. My empirical context singles out image uncertainty and allows us to examine it rigorously. Nevertheless, research on how salespeople cope with various types of changes simultaneously would shed useful light on this important subject.

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Appendix

Measures

Constructs/Measures* (Source): Respondent
Organizational Identification (Mael and Ashforth 1992): Salesperson
If someone were to criticize [Firm], it would feel like a personal insult.
I am very interested in what others think about [Firm].
When I talk about [Firm], I usually say "we" rather than "they."
[Firm's] successes are my successes.
When someone praises [Firm], it feels like a personal compliment.
If a story in the media criticized [Firm], I would feel embarrassed.
Social Inclusion (adapted from Jaworski and Kohli 1993): Salesperson
I truly feel like people at [Firm] are concerned with my needs.
I share the team spirit that pervades the ranks of [Firm].
I feel like I am part of the [Firm] family.
Emphasizing Organizational Culture (newly developed): Manager
When interacting with my salespeople, I
…communicate [Firm's] central values.
…educate my salespeople about [Firm's] rituals and symbols.
…talk to my salespeople about [Firm's] history.
…talk to my salespeople about [Firm's] company heroes.
Emphasizing Organizational Distinctiveness (newly developed): Manager
When interacting with my salespeople, I
…emphasize the distinctness of [Firm], compared with competitors.
…regularly discuss how [Firm] stands out from the competition.
…talk a lot about how [Firm] is unique in our industry.
…discuss the uniqueness of [Firm's] employees, relative to the competition.
…emphasize the uniqueness of [Firm's] service, relative to the competition.
…emphasize the uniqueness of [Firm's] business model, relative to the competition.
Emphasizing Strategic Intent (newly developed): Manager
When interacting with my salespeople, I
…inform them about [Firm's] vision.
…talk frequently about [Firm's] strategic direction.
…always make sure that my salespeople understand [Firm's] mission.
…educate my salespeople on [Firm's] operating procedures and/or policies.

*All items were rated on a seven-point scale (1 = "strongly disagree," 7 = "strongly agree").

Does the Presence of a Customer in the Boardroom Matter?

Introduction

Marketing scholars have increasingly investigated the role of upper echelon teams and their influence on firm outcomes. For example, Nath and Mahajan (2008) examine the antecedents for the presence of a chief marketing officer (CMO) in the top management team (TMT). Boyd, Chandy, and Cunha (2010) demonstrate that CMOs' influence on firm performance is contingent on customer power. More recently, Germann, Ebbes, and Grewal (2015) find that CMOs exert a positive influence on firms' market-based outcomes. Finally, Feng, Morgan, and Rego (2015) show that powerful marketing departments enhance firm performance through both long-term market-based asset-building and short-term market-based asset-leveraging capabilities.

However, firms are not led only by their TMTs. Above the TMT sits the board of directors, which monitors TMT actions and provides advice and counsel to the TMT on firm strategy (Hillman and Dalziel 2003). The monitoring role of the board has received ample attention among both academics and practitioners (Dalton et al. 2003). However, with the passage of the Sarbanes-Oxley Act (SOX) of 2002, boards' accountability in terms of firm performance has substantially increased (Monks and Minow 2004). As a result, boards are taking an active role in formulating firm strategy (Finkelstein, Hambrick, and Cannella 2009). For example, a recent McKinsey (2016) survey shows that both the time boards spend on and their commitment to strategy are significantly higher than those in previous years and that they intend to devote even more time to strategy in the next few years. In addition, strategy is also the area in which boards spend

the greatest amount of time across several areas of work (more than double the time spent on governance and compliance issues).

Table 5 Upper Echelon Teams and Firm Performance: A Review of Literature

Upper Echelon Focus	Main Findings
CMO	• Innovation, differentiation, and CEO being an outsider are associated with the likelihood of CMO presence (Nath and Mahajan 2008). • CMO has higher power when TMT marketing experience is lower and the CMO has the additional responsibility of sales (Nath and Mahajan 2011). • CMOs create less market value in firms that are exposed to more customer power (Boyd, Chandy, and Cunha 2010). • Performance of firms that employ a CMO is greater than that of firms that do not employ a CMO (Germann, Ebbes, and Grewal 2015).
Marketing Department	• Accountability and innovativeness of the marketing department determine its influence (Verhoef and Leeflang 2009). • Marketing department power enhances total shareholder returns (Feng, Morgan, and Rego 2015).
Board of Directors	• The presence of a COB enhances firm performance (The current research).

However, most often, despite boards' desire to participate in firm strategy, they face persistent challenges in making meaningful contributions to firm strategy (Carpenter and Westphal 2001). Such challenges may stem mainly from boards' inadequate understanding of how the firm creates value for its customers (Bhagat, Hirt, and Kehoe 2013). Specifically, 84% of directors do not have a comprehensive understanding of firm customers. This lack of customer orientation, a source of sustainable competitive advantage (Kumar et al. 2011), at the board level might inhibit firms from making optimal strategic decisions.

In this context, I find that more than 30% of the business-to-business (B2B) firms (in my sample) have a senior executive, such as a chief executive officer (CEO), from a customer firm on their boards. On the one hand, the presence of a customer in the boardroom should lead to a better understanding of customer needs and the dynamics of the customer's industry, which in turn should help the firm create a customer-oriented business strategy. On the other hand, such "customer-directors" might encourage decisions that are beneficial to the customer but detrimental to the firm. Given these competing arguments, in this study, I aim to assess whether the presence of a customer on the board (COB) influences firm performance. In addition, I identify the conditions under which a COB has a more or less influence on firm performance.

I make four contributions to marketing theory and practice. First, I highlight the notion of a customer-director, who I define as an executive director at one of the focal firm's customers, and outline implications of this position for marketing theory and practice. The idea of a customer-director offers the potential to expand the scope of customer involvement in firm strategic decisions. A traditional notion at least implicitly alluded to in most marketing research is that customers passively respond to firm strategic decisions. My approach flips this notion by examining how customers could participate in firm strategy. In addition, the customer-director notion expands the scope of customer co-creation—the joint creation of value by the firm and the customer. Specifically, while customer co-creation resides predominantly in the new product development space, the notion of customer-director advocates involving a customer in broader firm-level strategy.

Second, I highlight an alternative way to bring TMT attention to customer-related issues. Owing to their strong market orientation, marketing departments are in an excellent position to bring important market intelligence to TMT's attention. Therefore, firms with strong marketing departments align their strategic decisions with the marketplace more effectively (Delmas and Toffel 2008). However, research has become increasingly concerned that the marketing department is losing its influence in firms (e.g., Homburg et al. 2015; Sheth and Sisodia 2005). This is troublesome because a decrease in marketing department power implies that TMTs have less information on changing customer needs and preferences, which could lead to suboptimal decisions. My results indicate that having a COB may support or even substitute for the market intelligence-gathering role of the marketing department. Specifically, I find that in the absence of marketing personnel in the TMT, the customer-director has a greater influence on firm performance.

Third, I offer a view of boards of directors that goes beyond monitoring. The financial scandals in the past decade (e.g., Enron) have fueled heated debate in finance, economics, and management about the role of boards. Many of the recommendations from these discussions call for increased monitoring of management by the board of directors (e.g., Culp and Niskanen 2003). However, boards seem to have an insufficient understanding of the firm value creation process (Bhagat, Hirt, and Kehoe 2013). This is problematic because, as Feldman and Montgomery (2015) show, incentives without expertise are not sufficient and can be detrimental to the effective functioning of the board. In this context, I highlight an important approach that allows effective board functioning—having a COB. Having a customer in the boardroom enables the board as a

whole to gain a better understanding of the firm's value creation process; such an improved understanding should aid the board in providing superior guidance to the TMT. Thus, shareholders should take a broader view of boards of directors' role, beyond just monitoring the TMT.

Fourth, the domain of boards offers the potential to extend the domain of marketing research to areas that have rarely received research attention: boards of directors. Boards, the ultimate custodians of firms' decisions, are distinct entities and examining their characteristics offers a complementary view to existing studies. For example, boards make vital decisions related to the marketing department, such as marketing budgets, hiring, promoting, and compensating top-level marketing executives such as CMOs. Boards also often shape the marketing philosophy, strategy, and implementation. However, with the increase of independent directors on the board, especially those who are financial experts, marketing presence at the board level is often negligible. According to Whitler, Krause, and Lehmann (2015), only 2.6% of directors have any marketing experience. This change in the composition of boards has the potential to change the marketing philosophy of firms. With this research, I hope to heighten interest in examining the characteristics of boards that influence marketing outcomes.

Theory and Hypotheses

Related Theories

The board of directors is the highest-ranking decision-making body in any firm and the ultimate custodian of shareholder interests. For more than half a century, scholars have examined when and how boards of directors add value to firm shareholders. The most dominant theory in this space is agency theory (Hillman and Dalziel 2003). Agency theorists contend that a key activity of the board is to monitor management on behalf of a firm's shareholders and that effective monitoring enhances firm performance (Miller 1992). The underlying argument for board monitoring stems from the separation of ownership and control, which might encourage managers to pursue their own interests at the expense of shareholders' (Fama and Jensen 1983). Therefore, the two most important proxies of monitoring, board independence and director equity compensation, should positively influence firm performance. Though theoretically appealing, prior research has shown that these two proxies do not significantly affect firm performance (i.e., Dalton et al. 2003).

In contrast with agency theorists, resource dependency theorists emphasize the role of directors as providers of important resources (Pfeffer and Salancik 1978). Here, resources refer to anything that can strengthen the position of the firm in the market. Resource dependency theory emphasizes the importance of linking firms to external contingencies that create uncertainty and interdependence. Directors could act as an important link between the firm and external contingencies, thereby enhancing firm performance (Hillman and Dalziel 2003). For example, critical sources of external

interdependence and uncertainty for firms are governments and regulators. Hillman (2005) shows that firms operating in heavily regulated industries benefit from having a politician on the board. Similarly, in an event study, Faccio (2006) demonstrates that political connections improve firm value. Another important external contingency for firms is their customers (Nath and Mahajan 2011). In what follows, I argue that having a direct link with a customer improves firm performance.

Before outlining my hypotheses, I highlight the board's critical involvement in firm strategy. Agency theory posits that boards affect firm strategic decisions by preventing managers from acting opportunistically at the expense of shareholders, while resource dependency argues that the role of boards is to facilitate and empower managers in the realm of strategy. Ample empirical evidence supports the latter perspective, which I embrace in my research. For example, board composition affects strategic outcomes, such as innovation (Hoskisson et al. 2002), strategic change (Westphal and Fredrickson 2001), mergers and acquisitions (Huang et al. 2014), and scope (Jensen and Zajac 2004). Hoskisson et al. (2002) show that board composition specifically affects corporate innovation strategies. Westphal and Fredrickson (2001) find that directors are instrumental in corporate strategy changes. More importantly, after incorporating board experience, the experience of the top management no longer predicts corporate strategic change. Huang et al. (2014) show that firms with an investment banker on the board make superior acquisition decisions. Jensen and Zajac (2004) find that firms with more directors with financial expertise engage in higher levels of diversification. In addition to these studies, McKinsey's (2016) board survey reveals that boards continue to take a

more active role in firm strategy. Overall, ample theoretical justification and empirical proof indicate that boards of directors are instrumental in steering firm strategy.

COB and Firm Performance

I theorize that having an executive from a customer firm on the board of directors affects firm performance positively for three reasons. First, the presence of a customer in the boardroom brings customer-related issues to the highest level of the firm. This is essential because most boards spend an inadequate amount of time discussing customer-related issues (McGovern, Quelch, and Crawford 2004). Thus, having a COB encourages the firm to devote more time to customer-related issues, thereby enhancing customer orientation, a source of sustainable competitive advantage (Kumar et al. 2011). Second, having a customer in the boardroom provides unique information about the customer industry, which is often expensive or difficult for board members to obtain through other means (Boivie, Bednar, and Andrus 2016). This enhanced knowledge of the firm's customers enables the board to take a more proactive role in formulating customer-centric business strategy, thereby creating superior customer value. Third, a direct channel of communication with a customer provides the board valuable and timely information on changes in the customer's industry, an important source of external dependency. The direct link with the customer industry reduces uncertainty and buffers the firm from environmental fluctuations. In turn, these benefits should improve firm performance. Therefore,

H_1: The presence of a COB is positively associated with firm performance.

Moderating Conditions

I identify several conditions in which having a COB might be more or less important. Specifically, as Figure 1 shows, I examine how the presence of marketing personnel in TMTs, firm diversity, demand uncertainty, and CEO tenure moderate the effectiveness of a customer-director.

The marketing literature has systematically demonstrated the importance of the presence of marketing personnel in TMTs. For example, Moorman and Rust (1999) argue that specialized marketing knowledge created by the marketing department improves firm performance. Similarly, Germann, Ebbes, and Grewal (2015) show that firms that have a CMO have better performance outcomes, and Feng, Morgan, and Rego (2015) demonstrate that firms with powerful marketing departments generate better short- and long-term outcomes. The two important mechanisms that lead to these findings are an alignment of strategic decisions with the marketplace and the orientation of the TMT's attention to the firm's customers. As the presence of a COB influences firm performance through similar mechanisms, I expect that firms without marketing personnel in the TMT benefit more from having a COB. In other words, a COB may partly substitute for the marketing function in the firm. Thus:

H_2: The relationship between the presence of a COB and firm performance is weaker (stronger) when marketing personnel are present (absent) in TMTs.

Firms diversify for any number of reasons (Montgomery 1994). Firms that possess excess capacity in resources and capabilities might find diversifying beneficial because of economies of scope (Silverman 1999) or reduction of overall firm risk (Lubatkin and Chatterjee 1994). In addition, diversification can result from the pursuit of

executives' self-interests to increase their compensation, power, and prestige (Jensen and Murphy 1990). However, whether diversification is beneficial to shareholders is highly debate among finance scholars.

Despite this debate, one aspect scholars largely agree on is that firms face different market conditions in each of their business segments. The difference in market conditions warrants specific marketing strategies for each of these segments, and therefore planning at the firm level requires a thorough understanding of each segment. However, a customer from one of the business segments would be able to provide information pertaining to only that segment. Therefore, for highly diversified firms, having a customer in the boardroom is only beneficial for that one business segment. In contrast, for firms with low diversification (i.e., catering to a set of homogeneous customers), information a customer brings to the boardroom is applicable to the entire business. Thus:

H_3: The relationship between the presence of a COB and firm performance is weaker (stronger) when the firm is more (less) diversified.

Environmental turbulence refers to the amount of change and complexity in the firm's environment and depends on the industry in which the firm is operating. For example, firms operating in the high-tech industry often face higher environmental turbulence than firms operating in traditional industries, such as consumer-packaged goods. Two important characteristics of a turbulent environment are high levels of inter-period change in the values of key environmental variables and considerable uncertainty and unpredictability in forecasting these variables (Glazer and Weiss 1993). One main contributing factor to this turbulence is demand uncertainty (Nath and Mahajan 2011), or

the unpredictability of consumer needs and preferences. The level of demand uncertainty can shape important firm decisions (Han, Mittal, and Zhang 2017). Moreover, as demand uncertainty increases, it becomes more critical to scan and interpret the environment (Nath and Mahajan 2011). Building on this idea, I examine how demand uncertainty may moderate the COB–firm performance relationship.

Firms facing high demand uncertainty have customers whose needs and preferences may frequently change (Hanvanich, Sivakumar, and Hult 2006). This implies that firms' existing offerings are less likely to satisfy customer needs; therefore, firms must actively generate new value propositions or modify existing value propositions to meet those needs. To do so, firms must recognize changing customer needs and be willing to make the necessary adjustments in their offerings. The customer in the boardroom not only provides timely information on changing customer needs but also has the potential to influence firm offerings in that direction. Therefore, for firms facing high demand uncertainty, having a COB should be highly beneficial. In contrast, firms facing low demand uncertainty cater to a set of customers with stable preferences. Therefore, they do not need to frequently reevaluate their existing offerings or generate new value propositions. As such, the information a customer brings to the boardroom is less valuable because the changes in firm offerings likely have little effect on firm performance (Kohli and Jaworski 1990). Thus, having a COB should be more effective for firms facing high than low uncertainty in demand.

H_4: The relationship between the presence of a COB and firm performance is stronger (weaker) when demand uncertainty is high (low).

During the early part of their tenure, CEOs are attuned to the external environment (Henderson and Fredrickson 1996) and seek information from diverse sources. As they build a reputation, they become more insulated from external information that may distort personal paradigms that brought them past success (Luo, Kanuri, and Andrews 2014). As a result, longer-tenured CEOs rely more on local and internal information that suits their paradigms. In addition, CEOs' subordinates are likely to provide information that aligns with their preferences. Therefore, having a COB who commands equal or greater power than the CEO by virtue of his or her board membership and who is able to share unique information related to the dynamics of his or her industry will be more valuable for firms that have longer-tenured CEOs. Thus:

H_5: The relationship between the presence of a COB and firm performance is stronger (weaker) when the CEO has longer (shorter) tenure.

Sample and Measures

The primary sample examined in this study consists of Standard & Poor's (S&P) 900 firms, which cover more than 87% of the market capitalization of the U.S. firms, a fair representation of publicly traded firms. As the list of S&P firms can change over time, I use the S&P 900 firms at the beginning of the study period (2007). As my focus is on B2B firms, following Rao, Agarwal, and Dahlhoff (2004), I use the description of the firm's customers in the 10-K to determine whether a firm is business-to-consumer, B2B, or a mixture of these two types.

I use firms' proxy statements to decipher the presence or absence of a customer in the boardroom. I provide details of this procedure subsequently. Firm performance comes from COMPUSTAT and CRSP databases.

I obtain CEO tenure and identify whether marketing is present in TMTs from ExecuComp, which is an S&P database that contains data on executives, including title, age, gender, the year an executive joined or left the firm, and total compensation for the period. Data on firm diversity and uncertainty in demand come from COMPUSTAT.

Firm-level control variables (e.g., firm size) also come from COMPUSTAT, while board-level control variables come from Institutional Shareholder Service (ISS), formerly Risk Metrics. The ISS is a leading provider of corporate governance and responsible investment solutions. Its database includes a range of variables related to the board of directors, including name, age, tenure, gender, committee memberships, independence classification, primary employer, title, the number of other public company boards serving on, and shares owned.

The intersection of these databases yielded a sample of 329 firms, from 2007 to 2015, for 2,819 firm-year observations in total. Next, I present measures for my dependent and independent variables as well as the controls included in my empirical models.

Focal Independent Variable: COB

My principal independent variable is whether a board of directors is associated with a firm that is a customer of the focal firm. To identify such a relationship, I need to know who the customers of a firm are. As disclosure of firm customers is not mandatory and may be undesirable in a competitive environment, information on customers is not readily available.

However, with an increasing focus on governance in firms, regulations require firms to disclose important information about their boards. Specifically, the Securities and Exchange Commission requires that all publicly traded firms file a proxy statement before their annual shareholder vote. The purpose of the proxy statement is to disclose the material matters of the company relevant for soliciting votes and final approval of nominated directors. Because the election of directors is an important part of shareholder meetings, proxy statements disclose a plethora of useful information on directors. Thus, I use a component of the proxy statement to understand the presence of a COB.

All publicly listed U.S. firms require more than 50% of directors to be independent. A director is classified as an independent director if he or she does not have a material relationship (one that interferes with the ability to exercise independent judgment when carrying out his or her responsibilities as a director) with the firm, except as a director. To determine whether a relationship is material, firms need to determine

whether the director meets the criteria set forth by the New York Stock Exchange (or NASDAQ). A relevant criterion for my study is that a director is not independent if he or she is a partner, controlling shareholder, or the executive officer of any customer from which the firm received payments (for goods or services) that exceeded 5% of the firm's gross revenues or $200,000, whichever is greater. Therefore, when classifying directors as independent, firms disclose any relevant transactions and, for these transactions, whether they are above or below the aforementioned threshold.

I use these components of proxy statements to code whether a customer is present on the board. Specifically, if a firm with which a director is affiliated purchased goods or services from the focal firm, I classify the firm as having the presence of a COB. I manually collected this information for all 329 firms included in the study from 2007 to 2015.

Dependent Variable: Tobins'q

Boards of directors influence firm strategy in both the short and long run. Thus, a forward-looking and cumulative measure of firm performance is necessary to assess the impact of a COB. In addition, because my sample includes firms from many industries, the measure should be comparable across firms. Therefore, capital market–based measures are desirable because (1) they capture both immediate and future firm performance (2) they are less affected by the varying accounting practices used across industries. Consistent with previous studies in marketing (e.g., Germann, Ebbes, and Grewal 2015), I use Tobin's q as my performance measure. Tobin's q is the ratio of a firm's market value to the replacement cost of its assets (Tobin 1969). By combining capital market data with accounting data, Tobin's q not only measures the premium

(discount) that the financial market is willing to pay above (below) the book value but also uses the correct risk-adjusted discount rate.

Moderating Variables

The presence of marketing in TMTs (MKTG in TMT). To identify MKTG in TMT, I use the COMPUSTAT ExecuComp database, which provides TMT information from annual proxy statements. Again, the TMT is a list of important executives a firm specifies on its 10-K form or proxy statement as required by the Securities and Exchange Commission. I code the variable MKTG in TMT as 1 if at least one marketing person is part of the TMT and 0 otherwise.

Demand uncertainty. To measure demand uncertainty, I follow Morgan, Slotegraaf, and Vorhies (2009) and regress industry revenues for five years using the following equation:

$$y_t = \lambda_0 + \lambda_0\, t + \varepsilon_t, \quad (3)$$

where y_t is a linear transformation ($\log_e$[industry revenues]) for year t and ε is the residual term. I then use the standard error of the slope coefficient in each of these rolling regressions as my measure of demand uncertainty.

Diversification. Following Graham, Lemmon, and Wolf (2002), I measure diversification by the number of business segments in which a firm is operating. Accounting regulations require that the firms disclose business segments based on industry or product line. For example, Caterpillar operates in three main segments: construction, resource, and energy and transportation. Similarly, Ecolab, a global provider of water, hygiene, and energy technologies, operates in three main segments: industrial (e.g., mining, power generation), institutional (e.g., food service, hospitality,

lodging), and energy (e.g., petroleum). Undoubtedly, the customers in these three segments face different market conditions and, as such, have differing needs. For this reason, the number of segments is a good measure of diversification.

CEO tenure. I measure CEO tenure by the number of years a CEO is employed at the firm in the CEO role.

Control Variables

*Firm size***.** I measure firm size as the number of employees working at the firm.

Profitability. I include return on assets (ROA) as a control variable when using Tobin's q as the dependent variable. This is in line with Feng, Morgan, and Rego's (2015) study, which argues that including ROA as a control addresses firm-level endogeneity potentially induced by ROA. I obtain these data from COMPUSTAT.

Board governance. I use a dummy variable that takes the value of 1 if a firm's CEO is also the chairman of the board and 0 otherwise. I obtain these data from ExecuComp.

Board size. Board size has an inverse relationship to market value of the firm, making small boards of directors more effective (Yermack 1996). I measure board size as the number of directors serving on the board.

Board ownership. Agency theory predicts that directors who have ownership in the firm monitor management actions better. I measure board ownership as the cumulative percentage of shares held by the board of directors. I obtain these data from ISS.

Board diversity. Board demographic diversity affects firm performance positively (Carter, Simkins, and Simpson 2003). For example, gender-diverse boards are more

effective at monitoring management (Adams and Ferreira 2009). I measure board diversity using a dummy variable that takes the value of 1 if a woman serves on the board and 0 otherwise.

Board workload. The effective functioning of directors requires a commitment of time and resources. Therefore, directors serving on multiple boards might be less capable of devoting time to coach and monitor the management (Boivie, Bednar, and Andrus 2016). I measure board workload by the average number of directorships the board of the firm holds.

Empirical Model

I use the following specification to test my hypotheses:

$FP_{it} = \beta_0 + \beta_1\ COB_{it} + \beta_2\ X1_{it} + \beta_3\ COB_{it} * X1_{it} + \beta_4\ X2_{it} + \rho\ FP_{it-1} + \lambda_t + \alpha_i + \varepsilon_{it}$, (4)

where FP_{it} indicates the performance of firm i in year t (measured in terms of Tobin's q), COB_{it} is 1 if firm i has a COB in year t and 0 otherwise, $X1_{it}$ captures the moderating variables (MKTG in TMT, diversification, demand uncertanity, and CEO Tenure), $X2_{it}$ captures the control variables (board size, board ownership, board diversity, board reach, board governance, profitability, and firm size), FP_{it-1} is the lagged dependent variable (firm performance, or Tobin's q, in the previous period), λ_t are year fixed effects, α_i are firm-specific errors or firm fixed effects (fixed unknown constants), and ε_{it} represents the error term capturing the unexplained variation in FP_{it}.

The firm fixed effects control for time-invariant unobserved effects, and the lagged dependent variable captures time-varying unobserved effects (Wooldridge 2002). I also include year fixed effects to capture unique year-by-year fluctuations. Overall, the inclusion of several observable predictors, the lagged dependent variable, firm fixed effects, and year fixed effects increases confidence in my estimates.

The estimation challenge of this model is that FP_{it-1} is positively correlated with α_i, the firm-specific error term. This means that FP_{it-1} is endogenous and thus can bias the coefficient estimates (Judson and Owen 1999). The simple approach of fixed-effects estimation (within-transformation) does not solve the problem, as the within-transformed lagged dependent variable is correlated with the within-transformed error (Nickell 1981). The other alternative is to take the first difference.

However, the model in first differences cannot be estimated by ordinary least squares because FP_{it-1} is correlated with ε_{it-1}, making $FP_{it-1} - FP_{it-2}$ endogenous. This endogeneity can be addressed by using lagged values of the first-differenced dependent variable as instruments (Arellano and Bond 1991). That is, $FP_{it-2} - FP_{it-3}$, which is uncorrelated with ε_{it-1}, can be used as an instrument for $FP_{it-1} - FP_{it-2}$. In line with this notion, Blundell and Bond (1998) demonstrate that jointly estimating the levels and the first-difference equations yields a more efficient estimator. Specifically, regressors in levels equation are instrumented using their own lagged first differences, whereas the regressors in the first-difference equation are instrumented using two-period (or earlier) lagged regressor levels. The resulting system is usually estimated with a GMM (generalized method of moments) approach, usually referred to as system GMM. This approach is also ideal in situations like mine, where the panel has “small T, large N” (i.e., few periods and many firms) (Roodman 2009).

Results

Table 6 lists the statistics that describe the characteristics of the firms included in my sample. The average size of a board is 9.94 and the cumulative ownership of board members is 4.32% on average. The average number of other boards that the directors in my sample sit on is 1.04. Finally, the average number of business segments (measure or firm diversity) the firms in my sample operate in is 8.27.

My data show that, on average, 30% of the firms have COBs, and this figure did not change significantly during the sample period. Specifically, 33% of the firms had a COB in 2007, and 34% had a COB in 2015. However, I find considerable variation in COB presence across the firms. For example, 48% of firms did not have a COB during the entire nine years, 11% had a COB during the entire period, and 41% had a COB during some years but not others. Therefore, I have sufficient within-firm COB variation over time to estimate my model.

It is important to note that 92% of the customers sitting on the boards fall under the category of independent directors. That is, most of the firms with COBs receive less than 5% of revenues from these customers. Indeed, in the majority of cases, these customers contribute to less than 1% of focal firm revenues. Thus, firms do not have powerful customers (i.e., contributing to more than 10% of focal firm revenues) sitting on their boards. This absence alleviates concerns with conflicts of interest, such as customer-directors influencing decisions that benefit the customers more than the firms.

Table 6 Correlation Matrix and Descriptive Statistics

	Mean	St. Dev.	1	2	3	4	5	6	7	8	9	10	11	12	13
Tobin's q (1)	1.859	1.039	1.00												
COB (2)	.304	.460	.200	1.00											
MKTG in TMT (3)	.196	.397	.150	.001	1.00										
Diversification (4)	8.270	4.748	.010	-.010	-.010	1.00									
Demand uncertainty (5)	.139	.094	-.100	-.090	-.060	.040	1.00								
CEO tenure (6)	6.889	5.696	.090	-.040	.070	.640	.010	1.00							
Board size (7)	9.946	2.296	-.180	.110	-.110	.010	.000	-.080	1.00						
Board ownership (8)	4.322	14.282	.040	-.050	.020	.030	-.060	.120	-.070	1.00					
Board diversity (9)	1.421	.973	-.140	.110	-.070	-.030	-.170	-.120	.420	-.030	1.00				
Board workload (10)	1.044	.465	-.070	.090	-.090	.001	-.070	-.120	.150	-.110	.230	1.00			
Board governance (11)	.586	.493	-.050	.070	-.120	.270	.080	.210	.080	-.100	.090	.150	1.00		
Profitability (12)	.299	.188	.450	.090	.120	.030	-.220	.080	-.190	.130	-.050	-.010	-.060	1.00	
Firm size (13)	31.006	59.684	-.060	.140	-.070	.040	-.170	.000	.200	.130	.310	.170	.100	.060	1.00

Model Assessment

Arellano and Bond (1991) suggest two specification tests to assess the validity of the system GMM approach. The first test examines the second-order serial correlation in the specification. In particular, this test examines the validity of assumptions of system GMM using serial correlation. In case the assumptions are true, the residuals in first differences (AR[1]) would be correlated; however, there would be no serial correlation in second differences (AR[2]). In my study, the AR(1) test yields a p-value less than .01, and the AR(2) test yields a p-value of .451 (Table 7). These results suggest the presence of first-order serial correlation; however, I cannot reject the null hypothesis of no second-order serial correlation. Therefore, the assumption of system GMM is valid in my case.

The second specification test examines the validity of the instruments. Because the system GMM uses multiple lags as instruments, the model could be overidentified; therefore, I can test for the validity of the instruments. The Hansen test

yields a J-statistic that is distributed chi-square under the null hypothesis of the validity of my instruments. The results in Table 7 show a J-statistic with a *p*-value of .187, which confirms the validity of my instruments, as I cannot reject the hypothesis that my instruments are valid.

Test of Hypotheses

Table 7 presents the results from the estimation of Equation 2. H_1 predicted that the presence of a customer in the boardroom would positively influence firm performance. The system GMM model in Table 7 indicates that firms that have a customer in the boardroom have superior performance to firms that do not have a customer in the boardroom (β =. 164, $p < .001$), in support of H_1.

The two variables that I argued would negatively moderate the effect of COB on firm performance were significant with the expected signs. Specifically, H_2 predicted that the effect of COB on firm performance would be weaker when marketing personnel are present in the TMT. As the negative interaction term in Table 7 indicates ($\beta = –.076$, $p < .05$), I find that the presence of marketing personnel in the TMT lessened the effect of COB on firm performance, in support of H_2. This result has important implications that I elaborate on subsequently. In addition, H_3 predicted that the effect of COB on firm performance would be weaker when firm diversification is higher. Table 7 shows that the interaction between COB and diversification is negative and statistically significant ($\beta = –.021$, $p < .05$), in support of H_3.

Table 7 The Effect of COB on Firm Performance (Tobin's q)

	Model: System GMM	Hypotheses
Independent Variables		
COB	.164*** (.032)	H1: Supported
MKTG in TMT	.379*** (.084)	
Diversification	-.018 (.010)	
Demand uncertainty	.224 (.244)	
CEO tenure	.019* (.008)	
Interactions		
COB × MKTG in TMT	-.076* (.036)	H2: Supported
COB × diversification	-.021* (.011)	H3: Supported
COB × demand uncertainty	.804** (.306)	H4: Supported
COB × CEO tenure	.018* (.008)	H5: Supported
Controls		
Board size	.038** (.013)	
Board ownership	.013*** (0.002)	
Board diversity	.103* (0.041)	
Board workload	-.305*** (.064)	
Board governance	.058 (.061)	
Profitability	1.854*** (.154)	
Firm size	-.004*** (.001)	
Lag. Tobin's q	0.563*** (0.021)	
AR(1) test (*p*-value)	.001	
AR(2) test (*p*-value)	.451	
Hansen-J over identification test (*p*-value)	.187	

I also hypothesized two factors that would positively moderate the effect of COB on firm performance. In H_4, I predicted that the effect of COB would be stronger under high demand uncertainty conditions. According to the results in Table 7, as demand uncertainty increases, the effect of COB on firm performance becomes stronger ($\beta = .804$, $p < .01$), in support of H_3. Finally, in H_5, I argued that as CEO tenure increases, the effect of COB on firm performance becomes stronger. I find a positive and significant coefficient for CEO tenure ($\beta = .018$, $p < .05$), in support of H_5.

Robustness Checks

Alternative measures of the dependent variables. In line with prior research (e.g., Rego, Morgan, and Fornell 2013), my primary model specification and results use Tobin's q as the dependent variable. Tobin's q is a forward-looking capital market-based measure that also adjusts for the expected market risk (Amit and Wernerfelt 1990). Therefore, Tobin's q is extensively used as a performance-based metric in finance, marketing, and management disciplines. However, to test robustness to alternative measures, I use ROA as the dependent variable. I estimate Model 1 using the ROA as the dependent variable and find that my results are substantively unchanged. Specifically, I find that COB positively influences ROA ($\beta = .023$, $p < .05$).

Endogeneity check. While my results are consistent with the hypothesis (H_1) that a COB enhances firm performance, a potential concern is endogeneity due to selection bias. This problem emerges when customer-directors are not randomly distributed among firms and the presence of a COB is related to firm characteristics. For example, firms with high customer orientation might appoint a COB. If this is a common occurrence, unobserved firm characteristics may bias the positive relationship between a COB and

firm performance. Although I include firm fixed effects that capture such firm-level characteristics in my model, I acknowledge that there may be determinants of firm performance that I have not taken into account.

I use an instrumental variable (IV) approach to tackle possible endogeneity of the COB variable. For this purpose, I need to find at least one IV that is correlated with the COB variable but not with the error term in Equation 2. I use COB prevalence among the sample firms' peers in my sample as my IV. I consider peer firms as those that operate in the same primary two-digit Standard Industrial Classification code as the focal firm. Prior marketing research has used a similar approach (e.g., Chintagunta, Gopinath, and Venkataraman 2010; Chu and Manchanda 2016; Germann, Ebbes, and Grewal 2015).

To verify that COB prevalence is a valid instrument, I need to demonstrate that the instrument satisfies the relevance and exclusion restriction criteria. The relevance criterion requires that the instrument predicts COB presence in the focal firm. My argument for the relevance of the instrument relies on the following premises: First, the focal firm and its peer firms operate in the same industry and thus face similar market conditions. Therefore, the value of a COB is similar for the focal and the peer firms. In addition, as noted previously, firms may use the board composition of similar firms to determine their own board composition (Amore 2016). Therefore, the presence of a COB among the peer firms should positively influence the decision of the focal firm to bring a customer into the boardroom. I verify this premise empirically by regressing COB on COB prevalence (along with other covariates). The COB prevalence emerges as a

significant predictor of COB presence. Specifically, COB prevalence's coefficient ($z = 3.55$) is strongly significant.

Second, I need to verify that the instrument satisfies the exclusion restriction—the instrument to be uncorrelated with the error term in Equation 2. This is clearly a trickier assumption to verify. My instrument, prevalence of the COB, accounts for all firms in the same industry, not just the better-performing firms. In other words, the instrument reflects the firms that are performing better and worse than the focal firm. Therefore, the peer firms collectively cannot influence the omitted variables in Equation 2. As an illustration, I consider a firm-level omitted variable, such as organizational culture, that is a significant predictor of firm performance (Barney 1986). Peer firms collectively cannot measure this variable or strategically act on it (Germann, Ebbes, and Grewal 2015) because it is not easily quantifiable, measurable, or even observable to the competing firms. Even when peer firms are aware of the superior culture of the focal firm, they have difficulty imitating these strategic sources of competitive advantage (Grewal and Slotegraaf 2007). Thus, the instrumental variable is unlikely to be correlated with any of the omitted variables in Equation 2.

Having established the instrument's relevance and exclusion, I performed a two-stage least squares estimation, with COB prevalence as the instrument variable. The regression results indicate that COB has a positive effect on firm performance (1.412, $p < .001$).

Alternative explanations. A different source of firm performance, one not related to COB, is high customer orientation (at the TMT level). For example, customer orientation leads to a better understanding of customers, which in turn leads to superior firm performance

in both the short and long run (Kumar et al. 2011). While customer orientation has the potential to explain the main effect in H_1, it cannot predict the significant interactions proposed in H_2 and H_3. Indeed, it makes precisely the opposite prediction of H_3; this is because customer orientation should be more important as firm diversification increases. I found the opposite effect—namely, COB is less effective in diversified firms. In addition, the firm fixed effects in my models control for heterogeneity in customer orientation across firms.

Discussion

My overarching message is an appeal to broaden contemporary thinking and practice with regard to the role of customers on board of directors in firm strategic decisions. My findings suggest that academics and practitioners should extend the scope of their thinking and actions to account for the ways (1) boards affect firm performance, (2) customers create value, and (3) the TMT can be aligned with marketplace requirements

Extend the role of boards of directors beyond monitoring. The resource dependency view of directors would encourage shareholders and regulators to rethink the role of directors. In general, a boards' primary function has been treated as synonymous to monitoring the TMT; consequently, the focus has overwhelmingly been on directors' incentives to monitor. Leading academics relying on agency theory have advocated this perspective, which leaves room for conflicts of interest arising from the separation of ownership and management, while excluding the other important roles of directors. The monitoring role of directors is the dominant view among regulators and practitioners as well. For example, a vital requirement of the SOX is that firms should have a majority of independent directors, who have greater incentives to monitor the TMT than internal or related directors do. In addition, because the proportion of independent directors is critical to firm performance, ISS uses the percentage of independent directors as a major component of its governance metric (QualityScore). However, empirical support for the relationship between board incentives to monitor and firm performance is scant (Hillman

and Dalziel 2003). For example, Dalton et al. (2003) note that their meta-analysis provides little support for agency theory.

I argue that boards of directors should have a much wider scope than monitoring the TMT. Specifically, I take the perspective that directors can enhance firm performance by providing valuable resources. I base my theoretical arguments in resource dependency theory—firms with linkages to important sources of dependency and uncertainty at their highest levels can access information, receive feedback, and reduce uncertainty more than firms without such ties at their highest levels. My theoretical arguments and empirical results suggest that customer-directors bring valuable information to the highest echelons of the organization: the boards of companies that often do not have sufficient understanding of firms' customers and strategy (Bhagat, Hirt, and Kehoe 2013). As I note subsequently, this broadened view of directors offers new possibilities for research and practice on how to increase the role of customers in firm strategy, how to align TMT with the marketplace, and how to transcend the traditional boundary of marketing and boards.

Broaden the customer role in firm strategy. Even in an era of customer-centricity, firms consider customers operand resources, or resources on which an operation or act is performed to produce an effect. For example, marketers view customer segments as something to be targeted, penetrated, and managed (Vargo and Lusch 2004). Consequently, the flow of communication is from the firm to the customer, as the consumer must be persuaded so that the firm can extract the most value from transactions. In addition, the traditional view of marketing treats customers as passive reactors of firms' strategic decisions.

However, there is an increasing push to view customers as partners who can play a vital role in the development of innovative ideas for better product and service offerings. Specifically, Prahalad and Ramaswamy (2000) popularized the concept of cocreation with customers—the joint creation of value by the company and the customer. In the cocreation paradigm, customers are central and vital participants in the value creation process. This new paradigm views customers as proactive cocreators rather than as passive receivers of value. Chan, Yim, and Lam (2010) demonstrate that customer participation drives vital performance outcomes (e.g., customer satisfaction, performance) through the creation of economic and relational values.

I argue that customers can play even broader roles in firms. My findings indicate that firms with COBs can enhance their performance by allowing customer participation in important firm decisions. Moreover, my theoretical arguments and empirical results suggest that the impact of these customer-directors is greater in firms having long-tenured CEOs or facing high demand uncertainty. With the rise in demand uncertainty (Dyer, Furr, and Lefrandt 2014) due to changing customer preferences and needs, having a COB may be vital to firm success. Similarly, as CEO tenure is on the rise (Feintzeig 2014), customer-directors may play an important role in guiding and monitoring CEOs.

Seek alternative ways to bring the TMT's attention to customers. Powerful marketing departments enhance firm value through two mechanisms: building firm-level marketing capabilities and influencing TMT focus and attention to align firms' strategic decisions with the marketplace (Feng, Morgan, and Rego 2015). The underlying rationale for the second mechanism is that marketing departments have access to customers that make them more marketplace oriented (Moorman and Rust 1999), and a powerful

marketing department can align the TMT's decisions with marketplace requirements. However, marketing scholars have expressed concern that marketing is increasingly been perceived as a cost and not as an investment (Verhoef and Leeflang 2009). Marketing departments have been marginalized (Sheth and Sisodia 2005), and marketing departments are losing their influence on firms' strategic decisions (Homburg et al. 2015).

I argue that having a customer in the boardroom may be a partial remedy to the decreasing influence of marketing in firms. A customer-director should be as effective in articulating dynamics of the customer industry as a marketing department. Moreover, by virtue of board membership, the customer might have a greater influence on the TMT than a marketing department. Therefore, having a customer in the boardroom might partially offset the lower marketing department power in firms. My results confirm this expectation and indicate that having a customer in the boardroom is more effective in the absence of MKTG in TMT. However, I do not suggest that a customer-director can be a complete substitute for MKTG in TMT because a director is not able to build important marketing capabilities within the firm.

Expand the scope of upper echelon teams in marketing. My work contributes to the growing research in marketing that investigates the impact of upper echelon leaders on firm performance. This stream of research has so far examined the relationship between firm performance and marketing department power (Feng, Morgan, and Rego 2015) and the presence of a CMO (Germann, Ebbes, and Grewal 2015). However, boards of directors are the ultimate custodians of firm strategy. Specifically, the board makes several important decisions, including selection of the TMT, compensation and performance evaluation of the TMT, investments in marketing and R&D, and mergers

and acquisitions. Thus, board composition is a major driver of firm performance (e.g., Nguyen and Nielsen 2009). By investigating whether the presence of a customer in the boardroom matters, I take marketing research into the highest echelons of the organization, the boardroom. I hope that this research helps stimulate marketing scholars' interest in board-level phenomenon. For example, further research could investigate how the board's composition affects marketing department power and firms' strategic emphasis (e.g., value creation vs. value appropriation). These investigations would help firms gain a more nuanced understanding of the role of boards of directors.

Limitations and Further Research

As with any empirical research, this study has limitations. First, although my research provides strong evidence that a COB positively influences firm performance, it does not examine the factors that mediate this relationship. Resource dependency logic provides a theoretical rationale, but I do not directly test the underlying mechanisms. For example, market orientation (at the firm level) might be an important mediator for a COB's positive impact on firm performance. Further research could attempt to measure market orientation by analyzing annual reports (e.g., Noble, Sinha, and Kumar 2002) and then investigating whether market orientation mediates the relationship between COB and firm performance. Second, my results are based on large and well-established firms (S&P 900). However, I do not find a significant correlation between firm size and COB presence. Thus, my results are likely to hold even for smaller firms.

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