MANAGERIAL DISCRETION AND CORPORATE GOVERNANCE: THE BONDED RELATIONSHIP

Moustafa Haj Youssef [*], Da Teng [**]

* Adnan Kassar School of Business, Lebanese American University, Beirut, Lebanon
** *Corresponding author*, School of Economics and Management, Beijing University of Chemical Technology, Beijing, China
Contact details: School of Economics and Management, Beijing University of Chemical Technology, Chaoyang District North Third Ring Road 15, 100029, Beijing, China

OPEN ACCESS

How to cite this paper: Haj Youssef, M., & Teng, D. (2021). Managerial discretion and corporate governance: The bonded relationship. *Corporate Ownership & Control, 18*(3), 75-85. https://doi.org/10.22495/cocv18i3art7

Copyright © 2021 The Authors

This work is licensed under a Creative Commons Attribution 4.0 International License (CC BY 4.0). https://creativecommons.org/licenses/by/4.0/

ISSN Online: 1810-3057
ISSN Print: 1727-9232

Received: 18.01.2021
Accepted: 19.03.2021

JEL Classification: G34, L21, M12
DOI: 10.22495/cocv18i3art7

Abstract

Our study aims to demonstrate the importance of managerial discretion to corporate governance research and deepen our understanding of managerial discretion. Adopting theoretical frameworks and definitions from 93 conceptual and empirical studies on managerial discretion and corporate governance, we argue that extant studies have presented explicit empirical and theoretical definitions of managerial discretion; and have proved the validity, reliability, and replicability of the concept. We argue that corporate governance scholarship cannot move forward without managerial discretion as it provides shareholders and board of directors' essential guidance on how much freedom in decision-making is to be granted to top managers by deeming the different dimensions of the internal and external environment into consideration. We reinstate our original argument that corporate governance research is not better off without managerial discretion. We also provide a new vantage for corporate governance and managerial discretion scholars to distinguishing between the latitude of actions and latitude of objectives.

Keywords: Managerial Discretion, Corporate Governance, Refutation, Definitions, Executives

Authors' individual contribution: Conceptualization – M.H.Y. and D.T.; Investigation – M.H.Y. and D.T.; Resources – M.H.Y. and D.T.; Writing – Original Draft – M.H.Y. and D.T.; Writing – Review & Editing – M.H.Y. and D.T.; Visualization – M.H.Y. and D.T.

Declaration of conflicting interests: The Authors declare that there is no conflict of interest.

1. INTRODUCTION

Corporate governance research focuses on disciplining managerial behaviour under the circumstances of the separation of ownership and control where the firms' owners delegate the managers with control powers over their wealth (Shleifer & Vishny, 1997). Grounded within agency theory (Jensen & Meckling, 1976), corporate governance research addresses the potential conflicts between the shareholders and the management where managerial discretion constitutes one of its central concepts (Haj Youssef & Teng, 2019). This paper aims to demonstrate show the importance of managerial discretion and endeavour to provide an answer for the following question: *Does managerial discretion remain an important research domain within corporate governance disciplines?*

Andersen (2017, 2019) suggests corporate governance research should abandon the concept of managerial discretion because extant research only focuses on the concept of managerial discretion rather than its antecedents and consequences. In fact, two separate sections describing the antecedents and consequences of managerial discretion were featured in Andersen's (2017) study. On the antecedents, Andersen (2017) discusses two examples of discretion antecedents, locus of control (individual) and ethical culture (organization), by

arguing that due to the lack of support for human-related factors affecting managerial discretion, there is a need to develop more complete assessments of the construct. Furthermore, Andersen (2019) claims that studies cannot conduct empirical work because the concept itself is not measured. However, Haj Youssef and Teng (2019) contend that several studies as shown in Wangrow, Schepker, and Barker's (2015) review, attempted to directly operationalize the construct of discretion. For instance, Carpenter and Golden (1997) measured discretion by directly asking executives about their perception of their own level of discretion. Additionally, Hambrick and Abrahamson (1995) directly measured discretion by gathering data from two groups of experts: scholars and security analysts. Crossland and Hambrick (2011) departed from the same position where they measured national discretion level using two expert panels: academics and fund managers. More recently, Crossland and Chen (2013) also used the country discretion scores generated by Crossland and Hambrick (2011) in their study to investigate the role of discretion in assessing CEOs' accountability for poor performance in various countries. Similarly, Haj Youssef, Hussein, and Awada (2019) directly measured the degree of managerial discretion by using an expert panel consisting of consultants and strategic management scholars. This method provides construct validity and shows that such operationalisation technique is useful to understand the degree of discretion that is accorded to executives.

On the consequences, Andersen (2017) limited his discussion to very few outcomes of managerial discretion while reinforcing the idea that discretion is not used as a dependent variable instead of as a moderator. He argues that managers need to determine which actions fall within their discretion set, referring to the individual dimension of discretion. However, Abrahamson and Hambrick (1997) demonstrate that industries with greater discretion negatively affect executives' attentional homogeneity. The greater the industry discretion, the higher the heterogeneity in executives' cognitions. This helps executives to pay attention to external challenges and broadens their array of actions. For instance, when industry regulations are lifted, allowing more discretion, executives become more efficient in their selection of appropriate strategies, which helps to acquire more dynamic capabilities to achieve better adaptation to organisational change (Peteraf & Reed, 2007). Neglecting the fact that executives and particularly CEOs matter, Andersen (2017, 2019) was led to believe that no scientific support is presented to show that executives have an impact on organisational performance. Since Lieberson and O'Connor (1972), researchers have been interested in studying and empirically testing the executive, particularly CEO, the effect on firm performance and how much of that performance can be attributable to the individual CEO (Jain & Jamali, 2016; Hadani, Dahan, & Doh, 2015; Quigley & Hambrick, 2015; Wangrow et al., 2015). While acknowledging that executives have much influence on their firms' outcomes, there is also recognition that their behaviour is constrained by other factors (internal and external) that hinder their effectiveness. For instance, Crossland and Hambrick (2007) use a large data set spanning more than 15 years and variance partitioning technique to isolate the variance in firm performance attributable to CEO as opposed to other contextual factors. They find that the CEO with greater discretion has a 13 per cent direct effect on firm performance as opposed to year (4 per cent), industry (12 per cent), company (19 per cent), and 52 per cent of the unexplained source. Also, Crossland and Hambrick (2011) empirically showed that managerial discretion is strongly associated with the individual CEO effect on firm performance. Furthermore, Quigley and Hambrick (2015) empirically tested the increased effect of CEO on firm performance on a sample of US publicly listed firms and showed that the CEO effect has increased substantially and that it has reached almost 20 per cent, which is attributable to individual CEO. Similarly, Quigley and Graffin (2017) reaffirmed the significance of the CEO effect and reported a 21.8 per cent of direct CEO effect on firm performance, much higher than other factors. Therefore, the CEO effect on firm performance exists in proportion to the degree of managerial discretion, and that the discretion construct is an important mediator between the external environment and the CEO effect on firm performance.

Not only Andersen (2019) deems that managerial discretion dimensions have been neither theoretically nor empirically defined, but also considers the study of Haj Youssef and Christodoulou (2017a) adding new dimensions to the construct. This apparently shows that Andersen did not carefully read the studies mentioned and instead relied on virtual assumptions to support his reasoning. Andersen (2019) says: "This dimension is called cultural environment despite the fact that it includes organizational culture, which is an internal rather than an environment dimension" (p. 194). The cultural dimensions used in Haj Youssef and Christodoulou (2017a) were clearly at the national level and the study did not mentioned or incorporate any organisational level variables. They solely focused on the informal institutional environment as suggested by Crossland and Hambrick (2011). Thus, Andersen arguing that these additions should give us a pause to assess whether there is a need to add dimension is a misleading statement. We agree that there should be a clear distinction between the latitude of actions granted to executives and the freedom the executive actually implements or uses. Reinforcing the argument presented by Abrahamson and Hambrick (1997) on the executive attentional pattern and its relationship with managerial discretion. However, this does not reduce the importance of managerial discretion in the corporate governance field; instead, it shows that discretion is at the core of corporate governance.

The paper will proceed as follows. Section 2 discusses the theoretical origin of managerial discretion by reviewing relevant corporate governance and economic literature. Section 3 reviews the empirical studies and discuss the empirical finding on managerial discretion on several organisational outcomes. Section 4 clarifies the importance of the concept of managerial discretion by articulating the implication of internal corporate governance mechanisms on managerial power and top executives' discretion. Section 5 conclusion the paper with discussions on the limitations of this study and further avenues of research.

2. MANAGERIAL DISCRETION: THE THEORETICAL PERSPECTIVE

Before responding to the arguments presented in Andersen (2019), it is important to show the theoretical classification of managerial discretion. Theories in corporate governance and transaction cost economics (Fama, 1990; Williamson, 1981, 1991, 2010) assume managers as opportunistic agents. The main aim of such theories is to find ways in which they can control the opportunistic behaviour of managers. In this perspective, the concept of managerial discretion provides greater possibilities for managers to engage in opportunistic behaviour without fully attending to the needs and expectations of shareholders. Findings show that when managers particularly executives are given more discretion, they are more likely to use it for their own benefit and as such engage in opportunistic behaviour as opposed to using it in the interest of their firms. For instance, studies have shown how managers with greater discretion may engage in unjustified selling of assets (Lang, Poulsen, & Stulz, 1995), risky unrelated diversification as a method of strategic growth (Tosi & Gomez-Mejia, 1989), overpricing the portion of abnormal accruals (Xie, 2001), and boosting bonus pool allocation (Bailey, Hecht, & Towry, 2011). From a corporate governance perspective, such opportunistic behaviour lead to increased agency cost, which will ultimately affect shareholders, and from a transaction cost economics, it increases the economic cost of transactions.

The dilemma arises from the strategic management scholars' view on top executives. In this realm, top executives are important and critical decision-makers whose actions and choices have a significant impact on their organisations' fate and form (Hambrick & Mason, 1984). The principal argument is that executives who possess greater degrees of managerial discretion have a greater influence on organisational outcomes as opposed to their counterparts who possess a low degree of managerial discretion. Studies within the strategic management field show that when executives are accorded greater discretion, regardless of the source of such discretion, they may well engage in the development of their organisations through pursuing diversification strategy (Misangyi, 2002), which in turn provides greater strategic flexibility and spread the risk to allow for a quicker compensation of demand fluctuations in different task domains (Pehrsson, 2006). Furthermore, giving executives greater discretion would enable them to foresee more strategic actions such as entering new markets (Kim & Kim, 2013), initiating strategic change to allow for greater adaptability to changes in the external environment (Quigley & Hambrick, 2012), and engage in export-based internationalisation (Sahaym, Treviño, & Steensma, 2012). The principal objective in this research stream is to understand what hinders or permits executives to exercise their strategic agenda (Wangrow et al., 2015). Therefore, to a great extent, the strategic management perspective of managerial discretion adopts the view that these choices are in-line with organisational objectives.

The above perspectives have discussed managerial discretion in different ways, on the one hand, the corporate governance and economics literature focuses on describing the freedom executives can have in pursuing personal goals rather than maximising shareholders' return and firm performance. In high discretion settings, executives are more able to pursue individual objectives without actually getting held or punished. In low discretion settings executives are faced with significant pressures to focus on maximising shareholders' value and firm performance, and failure to do so will lead to punishment at the executive own cost. Despite recent findings that show a higher probability of CEO dismissal when firm performance is poor in high discretionary contexts (Crossland & Chen, 2013), this cannot directly explain if those CEOs have been caught engaging in opportunistic behaviour and as such have been punished by dismissal. Agency theorists (Walsh & Ellwood, 1991) argue that because executives are responsible for firm performance, they should inevitably be dismissed when performance becomes poor as this may well increase shareholders' wealth (Denis & Denis, 1995; Worrell, Davidson, & Glascock, 1993). However, such a perspective does not clearly suggest whether executives actively seek to engage in opportunistic behaviour and as a result, they face dismissal, instead, the governance mechanisms at the corporate level can have a significant impact on the occurrence of such turnover during the poor performance (Denis & Serrano, 1996). Additionally, some propose that executives' turnover or dismissal in poor firm performance is not but a ceremonial accusation or "ritual scapegoating" (Gamson & Scotch, 1964). This perspective suggests because of the internal and external forces that constraints organisations, executives are believed to have very little impact on organisational outcomes. The attribution of organisational performance to executives is nothing but a matter of observers romanticising leadership (Meindl & Lerner, 1984).

On the other hand, management and strategic management literature treat discretion as to the latitude of executive strategic actions and was introduced in a way to explain the effect executives can have over organisational outcomes (Finkelstein & Boyd, 1998; Hambrick and Finkelstein, 1987). Executives in low discretion conditions are bounded by different constraints, with a very narrow array of strategic actions to choose from and as such are less likely to have a significant influence on their organisational outcomes. Whereas, in high discretionary contexts, executives enjoy greater freedom in decision making and are able to choose from a wider array of strategic choices, which will ultimately be reflected in organisational outcomes. Following the latter literature, several studies have shown the different antecedents and consequences of managerial discretion. In terms of antecedents, research shows that executives operating within the same domain can foresee distinct sets of actions depending on their individualities and psychological characteristics (Wangrow et al., 2015). Some executives have the ability to envision a wider range of alternatives and to create multiple courses of action that affect organisational outcomes. These psychological micro-foundations are unique features that determine executives' discretion. For example, executives with a greater locus of control (Carpenter

& Golden, 1997), ambiguity tolerance (Dollinger, Golden, & Saxton, 1997), networking relationships (Geletkanycz & Hambrick, 1997), risk-taking behaviour (Roth, 1992), and low commitment to the status quo (McClelland, Liang, & Barker, 2010) possess a higher degree of discretion. Moreover, firms with abundant resources that are easily transferable enable executives to foresee change and choose from a wider variety of alternatives (Hambrick & Finkelstein, 1987). Similarly, the lack of ingrained culture and the existence of a passive board accord executives with a greater degree of discretion (Boyd & Salamin, 2001). Relatedly, CEO duality increases the likelihood of strategic change, which in turn enhances managerial discretion (Kim & Kim, 2013; Quigley & Hambrick, 2012). In contrast, organisations with an entrenched rigid culture and control place strict constraints on executives' actions and limit strategic change initiatives (Key, 2002; Wangrow et al., 2015). Also, some industries can afford a greater variety of choices/actions than others. Hambrick and Abrahamson (1995) argue that advertising, R&D intensity, and market growth promote managerial discretion. However, industry regulation constrains executives' latitude of actions (Peteraf & Reed, 2007). Similarly, Finkelstein (2009) finds that both demand variability and industry concentration negatively affect CEOs' discretion. Recent endeavours have broadened the milieu in which discretion emanates. Crossland and Hambrick (2011) assert that culture significantly shapes the degree of managerial discretion. They demonstrate that discretion is the primary instrument through which national culture sways CEOs' influence on firm performance. Similarly, Haj Youssef and Christodoulou (2017b), assumed greater homogeneity within a particular cultural context (Arabic countries) and investigated the generalisability of the cultural dimension of managerial discretion, and introduced new national-level antecedents. However, this later has been taken into consideration by emphasising the importance of intra-cultural variation (Haj Youssef & Christodoulou, 2018).

In relation to outcomes of managerial discretion, the majority of work in this field of research has examined the various consequences of managerial discretion, from the individual (e.g., for CEO risk-taking behavior, see Miller et al., 1982; for compensation, see Rajagopalan and Finkelstein, 1992; Baixauli-Soler, Lozano-Reina, and Sánchez-Marín, 2020), organization (e.g., for strategic change, see Quigley and Hambrick, 2012; for performance, see Agarwal, Daniel, and Naik, 2009; Von Lilienfeld-Toal and Ruenzi, 2014; Sirén, Patel, Örtqvist, and Wincent, 2018; Yan, Chong, and Mak, 2010; for CSR, see Gupta, Nadkarni, and Mariam, 2019; for HRM practice, see López-Cotarelo, 2018; for internationalisation option, see Sahaym, Treviño, and Steensma, 2012; for organisational structure and forms, see Pazzaglia, 2010; Sandhu and Kulik, 2019), industry (e.g., for attentional homogeneity, see Abrahamson and Hambrick, 1997; for competition, see Ball, Shah, and Wowak, 2018; for capital structure, see Andrikopoulos, 2009), and even the national level (e.g., for CEO influence on firm performance, see Crossland and Hambrick, 2011; for CEO accountability, see Crossland and Chen, 2013; for country competitiveness, see Haj Youssef et al., 2019). However, no study has examined whether discretion is a desirable construct for better performance, except for Haj Youssef et al. (2019).

Andersen (2019) debates that the discretion concept is intangible and a "black box", while such arguments are very catchy, they do not describe the actual state of discretion literature. All these claims appear to be in-line with each other, or in other words, the same. Being intangible and a "black box" has nothing to do with its theoretical definition, instead, these arguments should be presented in the empirical part. Haj Youssef and Christodoulou (2017b) argue that from a technical aspect, directly operationalizing managerial discretion is challenging because prior studies solely focused on using proxy measures. This is what makes discretion from a measurement standpoint, an intangible and a "black box" concept. Therefore, such claims are rejected. Andersen (2019) claiming that the discretion concept is not entirely knowable is not an accurate assessment of the theoretical lens of this concept. Instead of arguing that the concept is not entirely knowable, scholars should highlight what is missing in the discretion literature that will enhance our understanding of this concept in particular it is a contribution to the corporate governance field. Very little work in the discretion literature has adopted the economist perspective and investigated whether according greater degree of discretion to executives' triggers opportunistic behaviour. As mentioned earlier, the economics literature is concerned with the incentives that executives can have when accorded a greater degree of discretion, as in such situations, executives may take decisions that satisfy their own interest rather than maximize shareholder value. Remarkably enough, Williamson (1963) who is amongst the first authors to discuss the concept of managerial discretion is heavily bypassed in the discretion literature from a management perspective. He introduced discretion to describe the degree of freedom that a manager can have in pursuing personal goals in different areas: pay, power, prestige, and status. To bridge these two polar views, Shen and Cho (2005) introduced the concept of the latitude of objectives and latitude of actions to correspond to the central ideas being discussed in each of the above literature. They used latitude of objectives to complement the discussion in the economics literature and latitude of actions totally with the management literature. Such an integrative approach is very important to match different literature and enhance the understanding of a particular concept. However, it is almost impossible to disentangle the latitude of objectives from the latitude of actions when discussing managerial discretion, which was the case in the majority of work in the discretion field. Both latitudes describe the freedom of choice, or in other words, the availability of options available to executives. In contexts that provide greater latitude of actions, managers' probability in engaging in opportunistic behaviour, the latitude of objectives, is significantly increased. Also, in contexts where managers are accorded greater latitude of objectives may or may not take advantage of the situation and take the decision to serve their own interest at the expense of other stakeholders. Thus, both dimensions of discretion are well interconnected and cannot be divided. Again, reemphasizing

the theoretical importance of managerial discretion not only in the strategic management literature but also in the corporate governance field. The above discussion shows that instead of arguing that discretion does not provide any advances to research in corporate governance (Andersen, 2019), scholars are encouraged to focus on understanding when executives do engage in opportunistic behaviour, which will ultimately provide an additional explanation of the rationale behind incorporating discretion within corporate governance work.

3. MANAGERIAL DISCRETION: THE EMPIRICAL PERSPECTIVE

Hambrick and Abrahamson (1995) provided industry analysts' rating of managerial discretion and were the first to introduce such a direct empirical measure of discretion. Andersen (2019) argues to date there is no researcher that provided an empirical definition of discretion, including Hambrick and Abrahamson (1995). However, Hambrick and Abrahamson (1995) established a measure of the overall amount of discretion in a diverse set of industries by relying on panellist ratings. Panellists provide reliable and valid assessments of business strategies (Snow & Hambrick, 1980). An expert panel possesses the advantage of rating discretion itself directly and more closely than other measures. Additionally, the use of an expert panel provides scores with a minimum bias compared to CEOs for instance, and these panellists possess better knowledge in multiple contexts due to their exposure to several environments, and most importantly the relative objectivity of their answers (Hambrick & Abrahamson, 1995; Crossland & Hambrick, 2011). Similarly, Crossland and Hambrick (2011) and Haj Youssef and Christodoulou (2018) provided direct operationalisation techniques by relying on a panel of experts (international fund managers and professional management consultants). By doing so researchers are reaching consistency in the measurements (Boyd & Gove, 2006). Andersen (2019) relied on Carpenter and Golden (1997) who measured managerial discretion by relying on a questionnaire addressed to executives to argue that this makes discretion a subjective variable. While perceived discretion is indeed a subjective variable as it depends on the individual executive characteristics, Andersen (2019) avoided discussing the direct measures presented by Hambrick and Abrahamson (1995), Crossland and Hambrick (2011) and Haj Youssef and Christodoulou (2018), which clearly relied on an objective perspective. The rationale behind using expert panels as discussed above relates to the consideration of the context in conceptual terms, thus using minimum bias; wide exposure of the panellists which allows reasoned comparison in the rating; and most importantly providing objective measures. It is well documented that if asking an individual to self-rate themselves will provide biased responses and instead, it is better to ask others to rate individuals in order to maintain the objectivity element (Fisher, 2006). In this case, respondents become observers of others and accordingly will provide a more accurate and objective rating, which is the case when using industry analysts, international fund managers, scholars, and management consultants to rate the discretion of executives in a given context. Furthermore, Andersen (2019) relied on Hambrick and Finkelstein's (1987) statement about the individual dimension of managerial discretion that the degree to which executives are able to envision multiple courses of actions is still not measured. Envision is simply another word of perceiving, therefore what Hambrick and Finkelstein (1987) meant was perceived discretion, which was clearly empirically measured by Carpenter and Golden (1997) in Andersen's (2019) own words: "So far, there have been no logical arguments or any empirical studies supporting the notion that managerial discretion has any significant effect on organisational goal-attainment" (p. 197). Surprisingly enough the variance in firm performance attributable to the individual CEO has significantly increased over the last decades reaching levels as high as 26%, much more than the organization, industry, and year effects (Quigley & Hambrick, 2015). Managerial discretion the primary mechanism by which executives are able to place their own distinctive marks on the company fate and form proves otherwise. Also, CEOs in high discretionary contexts are paid more than their counterparts in low discretionary environments and are much more vulnerable to dismissal (Cho & Hambrick, 2006; Crossland & Chen, 2013). Therefore, claiming that discretion has no significant effect on firm goal attainment is another misleading statement.

4. REINSTATING THE ORIGINAL POSITION

Haj Youssef and Teng (2019) state that the separation of ownership and control leads managers to discover themselves with discretionary control over the funds that shareholders have invested. Though the investors and managers can sign a contract that specifies what managers do with the funds and how the returns are divided between managers and investors, most contingencies are difficult to predicate. Therefore, it is the impracticality of drawing a full-specified contract. Corporate governance literature stems from the divergence of interests and misalignment of incentives between the principals and the agents and addresses that the top management team has discretion in deploying shareholder's wealth because the incomplete contract can hardly regulate the top managers' opportunistic behaviour. The essential aim of good corporate governance is to minimize the agency problem and associated costs by restraining managerial discretionary accruals and ensuring the managers are working in line with the shareholder's best interests.

Managerial discretion refers to the latitude of options/objectives the top management team has in making strategic choices (Crossland & Hambrick, 2011; Hambrick & Finkelstein, 1987). Managerial discretion becomes irrelevant and unimportant only under the circumstance where the managers' interests are thoroughly aligned with the shareholder and/or regulated by a complete and sophisticated contract. Unfortunately, both circumstances are technically impossible or at least very costly to fulfil. The agency perspective suggests that managers can take advantage of the information asymmetry over the shareholders and engage in opportunistic

behaviour at the cost of the shareholders' interests. Therefore, a number of corporate governance mechanisms have been implemented to either align the management interests with the shareholders or generate effective monitoring to discipline the management. The incentive alignment function is fulfilled through incentive payment. The monitoring mechanisms include the board of directors and ownership concentration. While the monitoring mechanisms focus on controlling managerial behaviour by restraining managerial discretion and decision-making autonomy, the incentive mechanisms impose control through aligning the divergent incentives of the management and the shareholders.

Incentive payment. One potential solution to the agency problem is incentive payment. Shleifer and Vishny (1997) suggest that incentive payment provides managers with "a highly contingent, long term incentive contract ex-ante to align his/her interests with those of investors" (p. 744). Incentive payment restrains self-interested opportunism and motivates the management to discharge their duty with a focus on the best interests of shareholders. It is considered that such contracts co-align the preferences of agents with those of the principal because the rewards for both depend on the same actions and, therefore, the conflicts of self-interest between principal and agent are reduced.

Incentive payment relates to managerial discretion in two ways. First, incentive payment generates the pay-performance sensitivity where shareholders' interests are furthered through crafting executive pay arrangements. Thus, an incentive-based compensation policy motivates the manager to select and implement actions that increase shareholder wealth. In other words, incentive payment minimizes monitoring costs incurred by board directors and ensures that executives will not take advantage of their managerial discretion to shirk their duty towards a firm's shareholders (Magnan & Stonge, 1997).

Second, incentive payment and the general compensation package also reflect the managerial power because managers may use their influence within the firm to influence their own level of compensation (Bebchuk & Fried, 2003; Bebchuk, Fried, & Walker, 2002). Empirical studies have shown that higher discretion yields greater CEO compensation (Finkelstein, 2009; Finkelstein & Boyd, 1998; Rajagopalan & Finkelstein, 1992). Roth and O'Donnell (1996) examine 100 foreign subsidiaries in 5 countries and find that foreign subsidiaries with higher discretion tend to have a higher degree of incentive pay. Harris and Bromiley (2007) find that incentive payment is more like to trigger accounting misconduct in the U.S. between 2002 and 2003. Von Lilienfeld-Toal and Ruenzi (2014) indicate that in firms where managerial discretion is high, managerial ownership, as incentive payment, delivers large positive abnormal returns.

Board of directors. Board monitoring has been centrally important in corporate governance. Boards represent an organisation's owners and are granted formal authority to ratify management initiatives; evaluate managerial performance, and hence to award and penalise management on the basis of criteria that are set in favour of shareholders' interests (Fama & Jensen, 1983). Thus, the board is responsible for adopting control mechanisms to ensure that management's behaviour and actions are consistent with the interests of the owners. An effective board of directors can eliminate agency cost and limit managerial discretion by mitigating self-serving behaviour by managers and ensuring that a firm's management formulates appropriate strategies and hence improving performance (Fama & Jensen, 1983). Existing managerial discretion research views the governance roles of the board and focuses on the effects of board independence and CEO duality on the level of managerial discretion. Agency theorists suggest that CEO duality would reduce the board's effectiveness as a monitoring mechanism and enhance managerial discretion (Finkelstein & D'aveni, 1994). In addition, vigilant boards should be composed of more independent outsiders to control managerial behaviour.

Empirically, Finkelstein and D'aveni (1994) find that CEOs who also hold the board chairperson position at the same time have greater discretion compared to CEOs who are not holding the chairman position. Kim and Kim (2013) use CEO duality as a measure of managerial discretion and examine the link between CEO duality and market entry. Baliga, Moyer, and Rao (1996) address the duality structure may cause the abuse of managerial discretion. Maug (1997) emphasizes the important function of independent directors to restrain managerial discretion through contract negotiation. In more recent studies, Miller (2011) finds that more stringent corporate governance (e.g. more independent board structure and separated CEO and Chairman) mitigates costs of managerial discretion in publicly-traded insurance companies. Cheung, Naidu, Navissi, and Ranjeeni (2017) argue that board monitoring intensity and board independence can curb managerial discretion and managers' rent-seeking incentives. Ponomareva (2019) suggests that board monitoring is a counterbalance of managerial discretion and demonstrates that managerial discretion is a useful tool to explain the balance between controlling and enabling managerial decision making.

In addition to the monitoring function, researchers have also suggested alternative views about the role of the board based on stakeholder theory. Stakeholder theory recognises that corporate governance practices are influenced by a wider set of firm-related actors and their interactions (Freeman, 1984). Stakeholder theory shifts attention from the monitoring function of the board toward the multiple objectives of different constituent firm's stakeholders. For example, corporate governance researchers have reviewed the board of directors' resource role (Filatotchev, 2006; Zahra & Filatotchev, 2004) and suggested that boards can extend their involvement to the provision of ongoing advice and expertise to the firm (Teng, Li, & Tanna, 2021).

Ownership concentration. Large blockholders may be effective actors in controlling the agency problems caused by the separation of investments and "decision-making functions" in firms and restraining managerial discretion (Gedajlovic & Shapiro, 1998; Tihanyi, Johnson, Hoskisson, & Hitt, 2003). Blockholders can gather a substantial portion of the gains from the improvement of firm performance. They, therefore, have stronger incentives to monitor management closely (Jensen & Meckling, 1976). Blockholders usually have their representatives sit on the board of directors, so they

can influence managerial decisions and intervene in the firm's operation directly (Grossman & Hart, 1982). Hambrick and Finkelstein (1995) asserted that a concentrated ownership structure is associated with a lower degree of managerial discretion when compared with a dispersed ownership structure. Gedajlovic and Shapiro (1998) suggest that a concentrated ownership structure can be viewed as a mechanism to limit managerial discretion through increased control and monitoring of managerial decisions.

Apart from the internal corporate governance mechanisms listed above, extant corporate governance literature also explores the effects of external mechanisms on managerial discretion. For example, one aspect explores the influence of managerial discretion on accounting standards and information disclose. Nelson, Elliot, and Tarpley (2002) suggest that top manager may use their discretion to choose specific accounting standards. Keegan and Kabanoff (2008) find that a higher level of managerial discretion relates to a wider choice of the focal firm's accounting standard.

Another aspect examines the relationship between the market for corporate control and managerial discretion. The market for corporate control can be seen as a substitute for internal corporate governance based on direct monitoring by large blockholders who possess substantial control rights and interest alignment payment. Because there is a strong relationship between share prices and managerial performance, lower share prices urge shareholders to exit from the poorly performed firm, which, in turn, create incentives for outsiders to accumulate control rights, replace the management, and restructure the firm (Filatotchev, Jackson, Gospel, & Allcock, 2007). For example, Kim, Sambharya, and Yang (2016) examine the role of CEOs exercising managerial discretion in their effort to prevent their corporate demise and find CEOs cut discretionary expenses such as research and development, advertising, and rent to boost earnings and enhance financial performance.

Andersen (2017, 2019) argues corporate governance scholarship should be better off if the concept of managerial discretion can be abandoned. Haj Youssef and Teng (2019) disagrees with his conclusion because "the more discretion managers are authorized to exercise, the greater the potential for the managers to operate in their own self-interest at the expense of the firm's other claim holders" (Mayers & Smith, 1994, p. 640). The aim of corporate governance has concentrated primarily on the effectiveness of corporate control, stressing the minimization of agency costs and managerial opportunism (Jensen & Meckling, 1976). The argument for imposing control over managerial discretion is illustrated by an extensive body of research discussed above. Therefore, we argue against Andersen (2017, 2019) and assert corporate governance research can not afford to abandon managerial discretion, an essential concept of corporate governance.

5. CONCLUSION

This paper has re-emphasized the importance of managerial discretion in corporate governance research. We have reviewed both theoretical research and empirical studies on this topic. We presented convincing evidence to show that there are several empirical works conducted to directly measure the concept of managerial discretion. Andersen (2017, 2019) proposes that we should abandon managerial discretion research because there are limitations in measuring it. We admit that extant empirical research may have limitations, just like many others, if not all social science studies. Does it mean, however, we should abandon this key concept of corporate governance? Our response is "No". As scholars, our job is to discover the unknown and unclarified knowledge, rather than abandon important concept which we are yet to explore fully. Furthermore, do we have a universally agreed definition and accurate measurement of "performance"? Do we have an accurate measure of "sustainability" and many other subjective items (e.g., job satisfaction)? If not, do we have to abandon all of these as well? Calling to abandon the concept of managerial discretion in corporate governance research is a clear indication that scholars in this field are not able to disentangle these two concepts. Therefore, we still strongly believe that corporate governance and managerial discretion are closely related. We encourage scholars to present additional attention to understanding the different mechanisms in which these constructs interact.

This paper highlights the importance of managerial discretion in corporate governance research, which provides promising avenues for future research. Recent research has addressed the importance of managerial discretion in corporate governance and explored its effects on corporate governance and firm performance. Prior studies have examined the impacts of managerial discretion on executive payment and leadership structure (Carpenter & Sanders, 2002; Finkelstein & Boyd, 1998). The question of whether managerial discretion has positive or negative impacts on performance outcomes remains debated. Wangrow et al. (2015) urge managerial discretion scholars to further examine the complementary vs substitute effects of managerial discretion on corporate governance mechanisms. In specific, they suggest corporate governance scholars further examine the interplay between managerial discretion and corporate governance mechanisms. Internal corporate governance mechanisms may be more necessary and beneficial when managerial discretion is high. By contrast, closely monitor managerial behaviour may be unnecessary when managerial discretion is limited.

Furthermore, the mixed and inconclusive finding of the managerial discretion and performance link may be derived from the theoretical base of the stewardship theory versus agency theory. One critical question that requires further investigation is that under what circumstances the top management team is more likely to serve as the steward or self-interested agent. We need to examine both external factors and internal organisational settings to understand when and where managerial discretion is beneficial for the firm's outcomes. Agency theorists have generally related managerial discretion with opportunistic behaviour. Thus, exploring under what circumstances managerial discretion plays a beneficial role in influencing performance has an interesting implication for the organisation.

Existing studies have investigated the macro effects of the institutional environment on managerial discretion diversity (Crossland & Hambrick, 2011; Wang, DeGhtto, Ellen, & Lamont, 2019) and the interrelationship between managerial discretion and corporate governance. This line of research highlights how managerial discretion is regulated under varying institutional settings and corporate governance regimes. However, a limited amount of research had examined how micro-level managerial characteristics influence the perception of the external situations and governance system, which in turn, enhance or reduce executives' perceived level of discretion (Wangrow et al., 2015). Important insights can be gained by investigating managerial human capital, social capital, and psychological capital and see how these characteristics enable executives to make decisions under a given macro environment and corporate governance system. What we are suggesting is that the relationship between managerial discretion and corporate governance should not be a one-way path (i.e., effectiveness and quality of corporate governance would shape levels of managerial discretion), rather managerial characteristics (especially human capital, social capital, and psychological capital) may act as counter forces and shape corporate governance practices. Recent corporate governance research has devoted attention to the distinct contexts in which firms are embedded (Aguilera & Jackson, 2003; Aguilera, Judge, & Terjesen, 2018). By criticising agency theory under contextualised nature, institutional theorists explain the diversity of corporate governance arrangements across different institutional contexts, suggesting that corporate governance may be exogenously determined by organisational environments. Therefore, research on managerial discretion could greatly benefit from a theoretical discussion on how do institutions create diverse corporate governance behaviours? Consequently, how do these corporate governance practices enhance or diminish managerial discretion?

Extant research explores the effects of managerial discretion on firm performance variability, managerial action, and corporate governance among established firms. Absent from research, however, is the level of discretion that top managers, especially the firm's founder within an initial public offering (IPO) firm perceive. The founder, as the firm's creator and legal owner, has a profound influence on a firm's strategy and performance in the early stage of the firm's life cycle (Teng & Li, 2020; Teng et al., 2021). IPO is probably the most important stage in the evolution of a public company. An entrepreneurial firm has to adjust its organisational structure and corporate governance to accommodate the changed ownership structure and different stakeholders' interests after the flotation. The founder who used to serve as the leader and chief executive may still serve as the CEO after the IPO. It has important implication to examine how the corporate governance may restrain the managerial discretion of the founder and how the founder challenges the various new stakeholder of the newly listed firm and ensure his/her voice on the firm's decision-making.

The above proposed managerial discretion research has important theoretical and practical implications. Since Hambrick and Mason's (1984) seminal paper on "upper echelons', the question *"does top management team matter"* can be hardly controversial. Managerial discretion, as the latitude of managerial actions, is delegated by the shareholders and varies across external and internal organizational environments. It is important to explore the effectiveness of the delegation and examine to what extent and under what circumstances top management influences corporate strategy, innovation, performance, and other organizational outcomes.

REFERENCES

1. Abrahamson, E., & Hambrick, D. C. (1997). Attentional homogeneity in industries: The effect of discretion. *Journal of Organizational Behavior, 18*(1), 513-532. https://doi.org/10.1002/(SICI)1099-1379(199711)18:1+%3C513::AID-JOB905%3E3.0.CO;2-8
2. Adams, M., & Hossain, M. (1998). Managerial discretion and voluntary disclosure: Empirical evidence from the New Zealand life insurance industry. *Journal of Accounting and Public Policy, 17*(3), 245-281. https://doi.org/10.1016/S0278-4254(98)10003-0
3. Agarwal, V., Daniel, N., & Naik, N. Y. (2009). Role of managerial incentives and discretion in hedge fund performance. *Journal of Finance, 64*(5), 2221-2256. https://doi.org/10.1111/j.1540-6261.2009.01499.x
4. Aguilera, R. V., & Jackson, G. (2003). The cross-national diversity of corporate governance: Dimensions and determinants. *Academy of Management Review, 28*(3), 447-465. https://doi.org/10.5465/amr.2003.10196772
5. Aguilera, R. V., Judge, W. Q., & Terjesen, S. A. (2018). Corporate governance deviance. *Academy of Management Review, 43*(1), 87-109. https://doi.org/10.5465/amr.2014.0394
6. Andersen, J. A. (2017). The concept of managerial discretion in corporate governance – Better off without it? *CorporateGovernance: The International Journal of Business in Society, 17*(3), 574-587. https://doi.org/10.1108/CG-09-2016-0176
7. Andersen, J. A. (2019). A rejoinder on managerial discretion: Andersen (2017) vs Haj Youssef and Teng (2019). *Corporate Governance: The International Journal of Business in Society, 20*(2), 193-200. https://doi.org/10.1108/CG-09-2019-0276
8. Andrikopoulos, A. (2009). Irreversible investment, managerial discretion and optimal capital structure. *Journal of Banking & Finance, 33*(4), 709-718. https://doi.org/10.1016/j.jbankfin.2008.11.002
9. Bailey, W. J., Hecht, G., & Towry, K. L. (2011). Dividing the pie: The influence of managerial discretion extent on bonus pool allocation. *Contemporary Accounting Research, 28*(5), 1562-1584. https://doi.org/10.1111/j.1911-3846.2011.01073.x
10. Baixauli-Soler, J. S., Lozano-Reina, G., & Sánchez-Marín, G. (2020). Managerial discretion, say on pay, and CEO compensation. *Management Decision.* Advance online publication. https://doi.org/10.1108/MD-03-2020-0242
11. Baliga, B. R., Moyer, R. C., & Rao, R. S. (1996). CEO duality and firm performance: What's the fuss? *Strategic Management Journal, 17*(1), 47-53. Retrieved from https://www.jstor.org/stable/2486936

12. Ball, G. P., Shah, R., & Wowak, K. D. (2018). Product competition, managerial discretion, and manufacturing recalls in the U.S. pharmaceutical industry. *Journal of Operations Management, 58-59*(1), 59-72. https://doi.org/10.1016/j.jom.2018.04.003
13. Bebchuk, L. A., & Fried, J. M. (2003). Executive compensation as an agency problem. *Journal of Economics Perspectives, 17*(3), 71-92. https://doi.org/10.1257/089533003769204362
14. Bebchuk, L. A., Fried, J. M., & Walker, D. I. (2002). Managerial power and rent extraction in the design of executive compensation. *University of Chicago Law Review, 69*(3), 751-846. https://doi.org/10.2307/1600632
15. Boyd, B. K., & Gove, S. (2006). Managerial constraint: The intersection between organizational task environment and discretion. *Research Methodology in Strategy and Management, 3*(3), 57-95. https://doi.org/10.1016/S1479-8387(06)03005-0
16. Boyd, B. K., & Salamin, A. (2001). Strategic reward systems: A contingency model of pay system design. *Strategic Management Journal, 22*(8), 777-792. https://doi.org/10.1002/smj.170
17. Carpenter, M. A., & Golden, B. R. (1997). Perceived managerial discretion: A study of cause and effect. *Strategic Management Journal, 18*(3), 187-206. https://doi.org/10.1002/(SICI)1097-0266(199703)18:3%3C187::AID-SMJ861%3E3.0.CO;2-U
18. Carpenter, M. A., & Sanders, W. G. (2002). Top management team compensation: The missing link between CEO pay and firm performance? *Strategic Management Journal, 23*(4), 367-375. https://doi.org/10.1002/smj.228
19. Cheung, K. T. S., Naidu, D., Navissi, F., & Ranjeeni, K. (2017). Valuing talent: Do CEOs' ability and discretion unambiguously increase firm performance. *Journal of Corporate Finance, 42*, 15-35. https://doi.org/10.1016/j.jcorpfin.2016.11.006
20. Cho, T. S., & Hambrick, D. C. (2006). Attention as the mediator between top management team characteristics and strategic change: The case of airline deregulation. *Organization Science, 17*(4), 453-469. https://doi.org/10.1287/orsc.1060.0192
21. Crossland, C., & Chen, G. (2013). Executive accountability around the world: Sources of cross-national variation in firm performance – CEO dismissal sensitivity. *Strategic Organization, 11*(1), 78-109. https://doi.org/10.1177/1476127012460946
22. Crossland, C., & Hambrick, D. C. (2007). How national systems differ in their constraints on corporate executives: A study of CEO effects in three countries. *Strategic Management Journal, 28*(8), 767-789. https://doi.org/10.1002/smj.610
23. Crossland, C., & Hambrick, D. C. (2011). Differences in managerial discretion across countries: How nation-level institutions affect the degree to which CEOs matter. *Strategic Management Journal, 32*(8), 797-819. https://doi.org/10.1002/smj.913
24. Denis, D. J., & Denis, D. K. (1995). Performance changes following top management dismissals. *Journal of Finance, 50*(4), 1029-1057. https://doi.org/10.1111/j.1540-6261.1995.tb04049.x
25. Denis, D. J., & Serrano, J. M. (1996). Active investors and management turnover following unsuccessful control contests. *Journal of Financial Economics, 40*(2), 239-266. https://doi.org/10.1016/0304-405X(95)00846-7
26. Dollinger, M. J., Golden, P. A., & Saxton, T. (1997). The effect of reputation on the decision to joint venture. *Strategic Management Journal, 18*(2), 127-140. https://doi.org/10.1002/(SICI)1097-0266(199702)18:2%3C127::AID-SMJ859%3E3.0.CO;2-H
27. Fama, E. F. (1990). Stock returns, expected returns, and real activity. *The Journal of Finance, 45*(4), 1089-1108. https://doi.org/10.1111/j.1540-6261.1990.tb02428.x
28. Fama, E., & Jensen, M. (1983). Separation of ownership and control. *Journal of Law and Economics, 26*(2), 301-325. Retrieved from https://www.jstor.org/stable/725104
29. Filatotchev, I. (2006). Effects of executive characteristics and venture capital involvement on board composition and share ownership in IPO firms. *British Journal of Management, 17*(1), 75-92. https://doi.org/10.1111/j.1467-8551.2005.00455.x
30. Filatotchev, I., Jackson, G., Gospel, H., & Allcock, D. (2007). *Key drivers of 'good' corporate governance and the appropriateness of UK policy responses: Final report* (Project report of the Department of Trade and Industry and King's College London). Retrieved from http://eprints.hud.ac.uk/id/eprint/473/1/AllcockKey.pdf
31. Finkelstein, S. (2009). Why is industry related to CEO compensation? A managerial discretion explanation. *Open Ethics Journal, 3*(1), 42-56. Retrieved from https://cutt.ly/1z6I1eL
32. Finkelstein, S., & Boyd, B. K. (1998). How much does the CEO matter? The role of managerial discretion in the setting of CEO compensation. *The Academy of Management Journal, 41*(2), 179-199. https://doi.org/10.2307/257101
33. Finkelstein, S., & D'aveni, R. A. (1994). CEO duality as a double-edged sword: How boards of directors balance entrenchment avoidance and unity of command. *Academy of Management Journal, 37*(5), 1079-1108. https://doi.org/10.5465/256667
34. Fisher, K. L. (2006). Assessing psychosocial variables. *The Diabetes Educator, 32*(1), 51-58. https://doi.org/10.1177/0145721705285113
35. Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Boston, MA: Pitman.
36. Gamson, W. A., & Scotch, N. A. (1964). Scapegoating in baseball. *American Journal of Sociology, 70*(1), 69-72. https://doi.org/10.1086/223739
37. Gedajlovic, E. R., & Shapiro, D. M. (1998). Management and ownership effects: Evidence from five countries. *Strategic Management Journal, 19*(6), 533-553. https://doi.org/10.1002/(SICI)1097-0266(199806)19:6%3C533::AID-SMJ957%3E3.0.CO;2-%23
38. Geletkanycz, M. A., & Hambrick, D. C. (1997). The external ties of top executives: Implications for strategic choice and performance. *Administrative Science Quarterly, 42*(4), 654-681. https://doi.org/10.2307/2393653
39. Grossman, S., & Hart, O. (1982). Corporate financial structure and managerial incentives. In J. J. McCall (Ed.), *The economics of information and uncertainty* (pp. 107-140). Retrieved from https://www.nber.org/system/files/chapters/c4434/c4434.pdf
40. Gupta, A., Nadkarni, S., & Mariam, M. (2019). Dispositional sources of managerial discretion: CEO ideology, CEO personality, and firm strategies. *Administrative Science Quarterly, 64*(4), 855-893. https://doi.org/10.1177/0001839218793128
41. Hadani, M., Dahan, N. M., & Doh, J. P. (2015). The CEO as chief political officer: Managerial discretion and corporate political activity. *Journal of Business Research, 68*(11), 2330-2337. https://doi.org/10.1016/j.jbusres.2015.03.046

42. Haj Youssef, M. S., & Christodoulou, I. P. (2017a). Assessing the generalizability of management discretion: An empirical investigation in the Arab world. *Journal of Management and Strategy, 8*(1), 28-36. https://doi.org/10.5430/jms.v8n1p28
43. Haj Youssef, M. S., & Christodoulou, I. (2017b). Strategizing in a focused context: Managerial discretion in the Arab world. *Journal of Strategy and Management, 10*(4), 430-452. https://doi.org/10.1108/JSMA-04-2016-0029
44. Haj Youssef, M. S., & Christodoulou, I. (2018). Exploring cultural heterogeneity: The effect of intra-cultural variation on executives' latitude of actions in 18 countries. *International Journal of Cross Cultural Management, 18*(2), 241-263. https://doi.org/10.1177/1470595818790611
45. Haj Youssef, M. S., & Teng, D. (2019). Reaffirming the importance of managerial discretion in corporate governance: A comment on Andersen (2017). *Corporate Governance: The International Journal of Business in Society, 19*(2), 240-254. https://doi.org/10.1108/CG-05-2018-0172
46. Haj Youssef, M. S., Hussein, H. M., & Awada, H. (2019). The more you value the less you practice: A study on culture and managerial discretion. *Cross Cultural & Strategic Management, 27*(1), 26-50. https://doi.org/10.1108/CCSM-03-2018-0044
47. Hambrick, D. C., & Abrahamson, E. (1995). Assessing managerial discretion across industries: A multimethod approach. *Academy of Management Journal, 38*(5), 1427-1441. https://doi.org/10.5465/256864
48. Hambrick, D. C., & Finkelstein, S. (1987). Managerial discretion: A bridge between polar views of organizational outcomes. *Research in Organizational Behavior, 9,* 369-406. Retrieved from https://psycnet.apa.org/record/1988-15546-001
49. Harris, J., & Bromiley, P. (2007). Incentives to cheat: The influence of executive compensation and firm performance on financial misrepresentation. *Organizational Science, 18*(3), 350-367. https://psycnet.apa.org/doi/10.1287/orsc.1060.0241
50. Hambrick, D. C., & Mason, P. A. (1984). Upper echelons: The organization as a reflection of its top managers. *Academy of Management Review, 9*(2), 193-206. https://doi.org/10.5465/amr.1984.4277628
51. Jain, T., & Jamali, D. (2016). Looking inside the black box: The effect of corporate governance on corporate social responsibility. *Corporate Governance: An International Review, 24*(3), 253-273. https://doi.org/10.1111/corg.12154
52. Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behaviours, agency cost and ownership structure. *Journal of Financial Economics, 3*(4), 305-360. https://doi.org/10.1016/0304-405X(76)90026-X
53. Keegan, J., & Kabanoff, B. (2008). Indirect industry and subindustry-level managerial discretion measurement. *Organizational Research Methods, 11*(4), 682-694. Retrieved from https://eprints.qut.edu.au/15167/
54. Key, S. (2002). Perceived managerial discretion: An analysis of individual ethical intentions. *Journal of Managerial Issues, 14*(2), 218-233. Retrieved from https://www.jstor.org/stable/40604385
55. Kim, I., & Kim, I. (2013). Central bank's retained profits and discount windows: A bureaucratic organization's discretion-seeking hypothesis. *Emerging Markets Finance and Trade, 49*(3), 84-102. https://doi.org/10.2753/REE1540-496X490307
56. Kim, S., Sambharya, R. B., & Yang, J. S. (2016). Do CEOs exercise managerial discretion to save their jobs? *Journal of Management & Governance, 20*(1), 179-200. https://doi.org/10.1007/s10997-014-9300-2
57. Lang, L., Poulsen, A., & Stulz, R. M. (1995). Asset sales, firm performance, and the agency costs of managerial discretion. *Journal of Financial Economics, 37*(5), 3-37. https://doi.org/10.1016/0304-405X(94)00791-X
58. Lieberson, S., & O'Connor, J. F. (1972). Leadership and organizational performance: A study of large corporations. *American Sociological Review, 37*(2), 117-130. https://doi.org/10.2307/2094020
59. López-Cotarelo, J. (2018). Line managers and HRM: A managerial discretion perspective. *Human Resource Management Journal, 28*(2), 255-271. https://doi.org/10.1111/1748-8583.12176
60. Magnan, M. L., & Stonge, S. (1997). Bank performance and executive compensation: A managerial discretion perspective. *Strategic Management Journal, 18*(7), 573-581. https://doi.org/10.1002/(SICI)1097-0266(199708)18:7%3C573::AID-SMJ900%3E3.0.CO;2-K
61. Maug, E. (1997). Boards of directors and capital structure: Alternative forms of corporate restructuring. *Journal of Corporate Finance, 3*(2), 113-139. https://doi.org/10.1016/S0929-1199(96)00010-7
62. Mayers, D., & Smith, C. W., Jr. (1994). Managerial discretion, regulation, and stock insurer ownership structure. *The Journal of Risk and Insurance, 61*(4), 638-655. https://doi.org/10.2307/253642
63. McClelland, P. L., Liang, X., & Barker, V. L., III. (2010). CEO commitment to the status quo: Replication and extension using content analysis. *Journal of Management, 36*(5), 1251-1277. https://doi.org/10.1177/0149206309345019
64. Meindl, J. R., & Lerner, M. J. (1984). Exacerbation of extreme responses to an out-group. *Journal of Personality and Social Psychology, 47*(1), 71-84. https://content.apa.org/doi/10.1037/0022-3514.47.1.71
65. Miller, S. M. (2011). Managerial discretion and corporate governance in publicly traded firms: Evidence from the property-liability insurance industry. *Journal of Risk and Insurance, 78*(3), 731-760. https://doi.org/10.1111/j.1539-6975.2011.01415.x
66. Misangyi, V. F. (2002). *A test of alternative theories of managerial discretion* (Doctoral dissertation, University of Florida). Retrieved from http://etd.fcla.edu/UF/UFE1000145/misangyi_v.pdf
67. Nelson, M., Elliot, J., & Tarpley, R. (2002). Evidence from Auditors about managers' and auditors' earnings management decisions. *Accounting Review, 77*(1), 175-202. https://doi.org/10.2308/accr.2002.77.s-1.175
68. Pazzaglia, F. (2010). Are alternative organizational forms the solution to limit excessive managerial discretion? *Journal of Business Ethics, 93,* 623-639. https://doi.org/10.1007/s10551-009-0244-4
69. Pehrsson, A. (2006). Business relatedness measurements: State-of-the-art and a proposal. *European Business Review, 18*(5), 350-363. https://doi.org/10.1108/09555340610686949
70. Peteraf, M., & Reed, R. (2007). Managerial discretion and internal alignment under regulatory constraints and change. *Strategic Management Journal, 28*(11), 1089-1112. https://doi.org/10.1002/smj.628
71. Ponomareva, Y. (2019). Balancing control and delegation: The moderating influence of managerial discretion on performance effects of board monitoring and CEO human capital. *Journal of Management and Governance, 23,* 195-225. https://doi.org/10.1007/s10997-018-9423-y
72. Quigley, T. J., & Graffin, S. D. (2017). Reaffirming the CEO effect is significant and much larger than chance: A comment on Fitza (2014). *Strategic Management Journal, 38*(3), 793-801. https://doi.org/10.1002/smj.2503

73. Quigley, T. J., & Hambrick, D. C. (2012). When the former CEO stays on as board chair: Effects on successor discretion, strategic change, and performance. *Strategic Management Journal, 33*(7), 834-859. https://doi.org/10.1002/smj.1945
74. Quigley, T. J., & Hambrick, D. C. (2015). Has the "CEO effect" increased in recent decades? A new explanation for the great rise in America's attention to corporate leaders. *Strategic Management Journal, 36*(6), 821-830. https://doi.org/10.1002/smj.2258
75. Rajagopalan, N., & Finkelstein, S. (1992). Effects of strategic orientation and environmental change on senior management reward systems. *Strategic Management Journal, 13*, 127-141. https://doi.org/10.1002/smj.4250131010
76. Roth, M. S. (1992). Depth versus breadth strategies for global brand image management. *Journal of Advertising, 21*(2), 25-36. https://doi.org/10.1080/00913367.1992.10673365
77. Roth, K., & O'Donnell, S. (1996). Foreign subsidiary compen- sation strategy: An agency theory perspective. *The Academy of Management Journal, 39*(3), 678-703. https://doi.org/10.2307/256659
78. Sahaym, A., Treviño, L. J., & Steensma, H. K. (2012). The influence of managerial discretion, innovation and uncertainty on export intensity: A real options perspective. *International Business Review, 21*(6), 1131-1147. https://doi.org/10.1016/j.ibusrev.2012.01.003
79. Sandhu, S., & Kulik, C. T. (2019). Shaping and being shaped: How organizational structure and managerial discretion co-evolve in new managerial roles. *Administrative Science Quarterly, 64*(3), 619-658. https://doi.org/10.1177/0001839218778018
80. Shen, W., & Cho, T. S. (2005). Exploring involuntary executive turnover through a managerial discretion framework. *Academy of Management Review, 30*(4), 843-854. https://doi.org/10.5465/amr.2005.18378881
81. Shleifer, A., & Vishny, R. (1997). A survey of corporate governance. *The Journal of Finance, 52*(2), 737-783. https://doi.org/10.1111/j.1540-6261.1997.tb04820.x
82. Sirén, C., Patel, P. C., Örtqvist, D., & Wincent, J. (2018). CEO burnout, managerial discretion, and firm performance: The role of CEO locus of control, structural power, and organizational factors. *Long Range Planning, 51*(6), 953-971. https://doi.org/10.1016/j.lrp.2018.05.002
83. Snow, C. C., & Hambrick, D. C. (1980). Measuring organizational strategies: Some theoretical and methodological problems. *Academy of Management Review, 5*(4), 527-538. https://doi.org/10.5465/amr.1980.4288955
84. Teng, D., & Li, C. (2020). Founder's characteristics, institutions, and entrepreneurial firm's IPO speed in China. *European Journal of International Management*. Advance online publication. Retrieved from https://doi.org/10.1504/EJIM.2021.10034515
85. Teng, D., Li, C., & Tanna, S. (2021). Foreign ownership and productivity in Chinese newly listed firms: The moderating roles of founder's human capital and social ties. *Asia Pacific Journal of Management*. Advance online publication. https://doi.org/10.1007/s10490-021-09758-w
86. Tihanyi, L., Johnson, R. A., Hoskisson, R. E., & Hitt, M. A. (2003). Institutional ownership differences and international diversification: The effects of boards of directors and technological opportunity. *Academy of Management Journal, 46*(2), 195-211. https://doi.org/10.5465/30040614
87. Tosi, H. L., Jr., & Gomez-Mejia, L. R. (1989). The decoupling of CEO pay and performance: An agency theory perspective. *Administrative Science Quarterly, 34*(2), 169-189. https://doi.org/10.2307/2989894
88. Verrecchia, R. E. (1986). Managerial discretion in the choice among financial reporting alternatives. *Journal of Accounting and Economics, 8*(3), 175-195. https://doi.org/10.1016/0165-4101(86)90002-9
89. Von Lilienfeld-Toal, U., & Ruenzi, S. (2014). CEO ownership, stock market performance, and managerial discretion. *Journal of Finance, 69*(3), 1013-1050. https://doi.org/10.1111/jofi.12139
90. Walsh, J. P., & Ellwood, J. W. (1991). Mergers, acquisitions, and the pruning of managerial deadwood. *Strategic Management Journal, 12*(3), 201-217. https://doi.org/10.1002/smj.4250120304
91. Wang, G., DeGhtto, K., Ellen, P. B., & Lamont, B. (2019). Board antecedents of CEO duality and the moderating role of country-level managerial discretion: A meta-analytic investigation. *Journal of Management Studies, 56*(1), 172-202. https://doi.org/10.1111/joms.12408
92. Wangrow, B. D., Schepker, J. D., & Barker, V. L, III. (2015). Managerial discretion: An empirical review and focus on future research directions. *Journal of Management, 41*(1), 99-135. https://doi.org/10.1177/0149206314554214
93. Williamson, O. E. (1963). Managerial discretion and business behavior. *The American Economic Review, 53*(5), 1032-1057. Retrieved from https://www.jstor.org/stable/1812047
94. Williamson, O. E. (1981). The modern corporation: Origins, evolution, attributes. *Journal of Economic Literature, 19*(4), 1537-1568. Retrieved from https://www.researchgate.net/publication/4725179_The_Modern_Corporation_Origins_Evolution_Attributes
95. Williamson, O. E. (1991). Economic institutions: Spontaneous and intentional governance. *Journal of Law, Economics, and Organization, 7*, 159-187. https://doi.org/10.1093/jleo/7.special_issue.159
96. Williamson, O. E. (2010). Transaction cost economics: The natural progression. *American Economic Review, 100*(3), 673-690. https://doi.org/10.1257/aer.100.3.673
97. Worrell, D. L., Davidson, W. N., & Glascock, J. L. (1993). Stockholder reactions to departures and appointments of key executives attributable to firings. *Academy of Management Journal, 36*(2), 387-401. https://doi.org/10.5465/256528
98. Xie, H. (2001). The mispricing of abnormal accruals. *The Accounting Review, 76*(3), 357-373. https://doi.org/10.2308/accr.2001.76.3.357
99. Yan, Y., Chong, C. Y., & Mak, S. (2010). An exploration of managerial discretion and its impact on firm performance: Task autonomy, contractual control, and compensation. *International Business Review, 19*(6), 521-530. https://doi.org/10.1016/j.ibusrev.2010.04.004
100. Zahra, S. A., & Filatotchev, I. (2004). Governance of the entrepreneurial threshold firm: A knowledge-based perspective. *Journal of Management Studies, 41*(5), 885-897. https://doi.org/10.1111/j.1467-6486.2004.00458.x