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# A cyclical view of the relationship between corporate governance and strategic management

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**Abstract** The vast majority of research on the relationship between corporate governance and strategic management focuses on the impact of corporate governance on strategic management. In this article we propose a cyclical model, highlighting that strategic decisions can also affect corporate governance through shaping firm ownership structure. We discuss the impacts of strategic decisions on firm ownership structure and corporate governance in the contexts of publicly traded firms, private firms, and the privatization of state-owned enterprises. We hope that our cyclical model can promote researchers to develop a more complete view about the relationships between strategic management, ownership structure, and corporate governance.

**Keywords** Strategic management · Corporate governance · Diversification · IPO · Privatization

## 1 Introduction

Research on the relationship between corporate governance and strategic management has primarily focused on corporate governance's impact on strategic management. This research is premised on the separation of ownership and managerial control, in which managers, as decision agents on behalf of owners of the firm, do not bear a substantial share of the wealth effects of their decisions (Jensen and Meckling

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1976). To control the agency problems caused by separation of decision and risk-bearing functions, organizations separate the ratification and monitoring of decisions from the initiation and implementation of the decisions (Fama and Jensen 1983). Corporate governance thus is concerned with the ratification and monitoring of decisions that are initiated and implemented by managers.

The function of corporate governance is generally performed by the boards of directors within the firms. The boards always have power to hire and fire top managers and to ratify and monitor important decisions. In addition, they can influence strategic decisions by aligning interests of shareholders and top managers through executive compensation, particularly through long-term performance based incentives such as stock ownership and stock options. Empirical research has consistently found that corporate governance mechanisms such as the boards of directors and executive compensation affect strategic decisions (e.g., Beatty and Zajac 1994; Cyert et al. 2002; Hoskisson et al. 1994; Sanders 2001; Westphal and Fredrickson 2001). This finding provides support for the agency theory argument that managers tend to pursue strategic decisions that benefit themselves at the expenses of shareholders when there is lack of effective corporate governance.

This research, while very useful, adopts a rather static perspective on the relationship between corporate governance and strategic management. It focuses only on the impact of corporate governance mechanisms at one point in time on managerial decisions and actions. Little research has investigated how managerial decisions and actions may influence corporate governance mechanisms. In his classic book about the relationships between strategy and structure, Chandler (1962) directs organizational researchers' attention to the impact of structure on strategy by convincingly showing that structure has as much impact on strategy as strategy has on structure. Following his spirit, we intend to draw organizational researchers' attention to how strategic management decisions can influence and shape corporate governance mechanisms through strategically managing the firm's ownership structure.

The separation of ownership and managerial control, on which corporate governance research is premised, results from ownership dispersion (Berle and Means 1932). However, ownership dispersion is not exogenous to the firm and its management. Instead, whether or not to disperse the firm's ownership among a large number of individual shareholders is an important strategic management decision—a decision about its capital structure that can have a significant impact on the firm and its management. For example, a firm undertaking an initial public offering (IPO) not only increases its regulatory burdens regarding both the auditing, certification, and disclosure of accounting information and the composition and structure of the board of directors, but also bring in a potentially very diverse group of owners. The new ownership structure may require the firm to have increased visibility as well as consistent revenues and profits growth (Ertimur et al. 2003). Although founders or owners of private firms are also concerned with revenues and profits, the decision to engage in an IPO definitely has profound impacts on the firm's governance structure, decision making process, and the ability of the incumbent management to retain control (Pagano et al. 1998). In addition to going public, mergers and acquisitions, launching a leveraged buyout, and privatization are all important strategic decisions that influence the firm's ownership structure and consequently affect corporate governance.

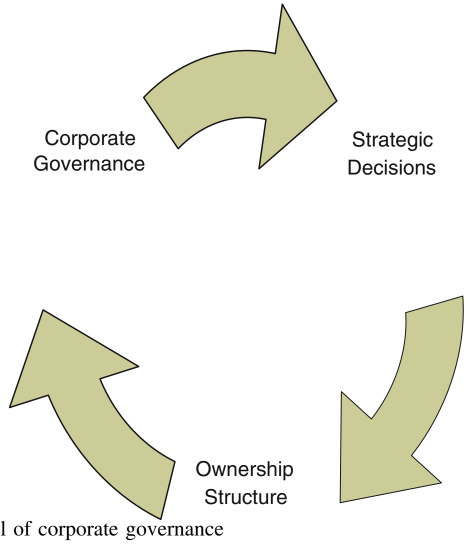

**Fig. 1** A cyclical model of corporate governance

By drawing attention to ownership structure as an endogenous management decision, our paper discusses the extent to which managers have the ability to influence their firm's ownership structure and how ownership structure influences corporate governance and subsequent strategic management decisions. We propose a cyclical model to describe the dynamic relationship between strategic management and corporate governance. Our model, depicted in Fig. 1, suggests that the relationship between strategic management and corporate governance is a cyclical, evolving process, in which ownership structure plays a central role in understanding how strategic management affects corporate governance. We hope that the proposed cyclical model can generate scholarly interest in studying how firms (specifically, their founders and/or managers) strategically manage their ownership structure and shape their corporate governance mechanisms. The rest of the paper will first review the relevant literature relating to each link in our cyclical model and then conclude by proposing some propositions and directions for future research on the relationship between strategic management and corporate governance from a cyclical perspective.

## 2 Literature review

The need for corporate governance results from the separation of decision making and risk-bearing functions at modern corporations (Jensen and Meckling 1976). Managers, as decision makers at these corporations do not bear the substantial wealth effects of their decisions. Owners, as risk bearers, do not have the power or incentive to directly influence managerial decisions because of ownership dispersion. To ensure that managers do not make decisions that further their personal interests at the expenses of shareholders, there is a need to ratify and monitor the decisions initiated and implemented by managers (Fama and Jensen 1983). In this section we briefly review the literature on how corporate governance affects strategic management and how ownership structure affects corporate governance.

### 2.1 Corporate governance and strategic decision making

According to agency theory, managers tend to pursue their personal interests at the costs of shareholders, especially when the interests of managers and shareholders conflict (Jensen and Meckling 1976; Fama and Jensen 1983). Thus, the purpose of corporate governance is to align the interests of managers with shareholders. This function is generally carried out by the board of directors within the firm, either through the ratification and monitoring of management decisions or through the provision of incentives by linking managerial compensation and dismissal decisions to firm financial performance (Baysinger and Hoskisson 1990). To investigate the impact of corporate governance on strategic decisions, researchers generally focus on strategic decisions that have different effects on the interests of managers and shareholders, such as unrelated diversification and R&D investment.

Unrelated diversification represents a corporate strategy that creates interest conflicts between managers and shareholders (Denis et al. 1997a). Managers can receive private benefits from pursuing an unrelated diversification strategy because it reduces their unemployment risk by reducing the variance in firm performance (Amihud and Lev 1981), and increases their power, prestige, and compensation by increasing firm size (Jensen 1986; Tosi et al. 2000). In contrast to managers who cannot diversify their employment portfolio, shareholders can diversify their investment portfolios more easily. They thus do not benefit from unrelated diversification strategy. Moreover, because unrelated diversification tends to destroy shareholder wealth and firm value (Zuckerman 2000), it is not favored by shareholders.

Empirical research has shown that internal corporate governance mechanisms such as the composition of the board of directors and executive compensation are associated with the level of unrelated diversification (Hoskisson and Hitt 1990). For example, firms are more likely to engage in unrelated diversification when corporate governance is weak (Amihud and Lev 1981, 1999; Denis et al. 1999). In contrast, when managers' ownership increases or the board becomes more vigilant in corporate governance, firms tend to reduce unrelated diversification and engage in more related diversification (Denis et al. 1997a; Sanders 2001; Westphal and Zajac 1997). Moreover, stock option plans tend to encourage managers to engage in riskier strategic actions such as acquisitions (Wright et al. 2002), while granting managers large blocks of restricted stock makes them less likely engage in risky strategic actions (Wright et al. 2007).

Similarly, R&D investment represents another important strategic decision about which mangers and shareholders have different preferences. Although R&D investment is a key factor affecting firms' competitive positions (Katila and Ahuja 2002), it generally exhibits a low rate of success in developing new technologies (Bosworth and Jobome 1999). Even if successful, its financial benefits tend to be distant and uncertain (Ravenscraft and Scherer 1982). Because of the low rate of success and the length of time required for innovations to produce adequate returns, managers often perceive R&D activities as entailing a high risk and prefer acquiring innovations through acquisitions instead of through internal development (Hitt et al. 1996). In addition, research finds that firms tend to produce fewer inventions during the later years of the CEO's tenure (Wu et al. 2005) and that corporate governance affects corporate R&D strategy (Baysinger et al. 1991; Bushee 1998; Hitt et al. 1996).

## 2.2 Ownership structure and corporate governance

Ownership dispersion does not only lead to the separation of ownership and managerial control, but also greatly affects corporate governance quality. Although the board of directors is formally charged with the ratification and monitoring of management decisions, research has shown that it is often less effective in performing this function unless it is pressured by investors (Johnson et al. 1996). One major reason is that directors not only tend to be beholden to the managers who invite them to join the board, but also share a strong social norm of respecting managerial autonomy and authority (Westphal and Khanna 2003). When a firm's ownership is widely dispersed, individual investors have little incentive or power to influence management and/or board decisions.

The increasing demand for corporate governance reforms and managerial accountability is largely driven by institutional investors and large block shareholders (Useem 1996). Jensen and Meckling (1976) propose that the incentive and ability for the owners to monitor managers is positively related to the size of their equity stake. Empirical research has provided strong support for this proposition. For example, a large equity stake gives owners a stronger incentive to closely monitor managers (Barclay and Holderness 1991). Large institutional investors can effectively influence the composition of the board of directors and changes in anti-takeover provisions (Carleton et al. 1998; Smith 1996). Their size and ownership stake give them not only the access to the CEO and the board, but also the influences over governance changes. The presence of large block shareholders (own more than 5 % of company stocks) has also been found to strengthen the impacts firm performance on executive compensation (Tosi and Gomez-Mejia 1989) and top management turnover (Denis et al. 1997b), suggesting that large shareholders are more able to hold managers accountable for firm performance.

Although institutional investors and large block shareholders can effectively influence corporate governance and management decisions, they do not necessarily act on behalf of the other shareholders. Instead, recent research shows that large shareholders often use their ownership position to pursue private interests at the costs of minority shareholders, especially in countries where legal protection of minority shareholder interests is weak (Anderson and Reeb 2004; Faccio et al. 2001; Johnson et al. 2000; La Porta et al. 2000; Young et al. 2008). Although minority investors can resort to the use of public media and proxy contests to voice their concerns and to protect their interests, they rarely succeed in these contests (Bebchuk 2007).

In addition to equity holders, other powerful constituencies can influence corporate governance mechanisms and management decisions. In a study focusing on the debt portion of the firm's capital structure, Stearns and Mizruchi (1993) show how bond holders can increase their influence over management decisions. In an effort to protect their interests, bond holders pressure the firm to accept their representatives on the board. Through their representatives on the board, bond holders can effectively influence management to use more debt than equity in financing, which further increases their influence over management decisions. Thus, the firm's decision to issue debt and grant board seats to bond holders has a follow-on effect on corporate governance and subsequent management decisions. Similarly, having bankers on the board can lead to the board working against the interests of the shareholders (Kroszner and Strahan 2001).

Because of the multiple constituencies involved and their different objectives, corporate governance is often the outcome of struggles between these constituencies, with each fighting for their own interests. It can reflect powerful managers' effective control over the firm (when there is the lack of effective governance), the will of large controlling shareholders, or the will of influential lenders or bond holders, depending on the ownership structure and/or capital structure of the firm as well as government regulations and the legal rights of each constituency.

## 3 Strategic decisions and ownership structure

Similar to the way ownership structure and corporate governance affect strategic management, strategic management can also affect ownership structure and corporate governance. However, the latter issue has not received much attention in the current literature about the relationship between corporate governance and strategic management. In this section, we address this issue in the contexts of publicly traded firms, private firms, and the privatization of state-owned enterprises (SOEs).

### 3.1 Publicly traded firms

Although managers cannot force investors to buy or sell their firms' stocks, they can surely influence investors' decisions through their strategic decisions, either consciously or unconsciously. Most individual investors and many institutional investors do not try to influence firm strategies through directly voicing their concerns to managers, as large block shareholders do, because of their limited ownership. Instead, they elect to express their judgment of the firm's strategy by "exit", that is, by selling their stocks in the market (Davis and Thompson 1994). Because investors have different investment objectives and strategies, they can vary significantly in their preferences regarding a particular strategy. For example, some investors are risk-seeking and have a strong preference for firms pursuing a growth strategy that is risky but potentially highly rewarding. On the other hand, some investors are risk-averse and have a strong preference for firms that engage in more stable, well-tested strategies (Hoskisson et al. 2002).

In addition to risk, investors vary in their preference about corporate social performance (CSP). CSP is concerned with the impacts of profit-seeking organizational actions on the well-beings of workers, the community, and the environment (Harrison and Freeman 1999). Although investors seek financial returns in making investment decisions, some of them are more concerned with corporate social performance than others. For example, research shows that pension fund are positively related to both the people (women and minorities, community, and employee relations) and the product quality (product and environment) dimensions of CSP, while mutual funds and investment bank funds exhibit no direct relationship with CSP (Johnson and Greening 1999). This finding suggests that institutional investors such as pension funds are concerned with CSP, but mutual funds and investment bank funds are not.

Lastly, investors, particularly institutional investors, vary in their investment strategies and trading behavior (Bushee 1998; Porter 1992). For example, some investors are "dedicated" owners who provide stable ownership and take large positions in only a few firms, and have a long-term orientation. In contrast, some investors are "transient" owners who hold small stakes in numerous firms and trade frequently in and out of stocks on the basis of the firms' current performance such as earnings. There is also a third group of investors, "quasi-indexers", who use an indexing or buy-and-hold strategy that is characterized by high diversification and low trading frequency. According to Porter (1992), institutional investors in Japan and Germany tend to be "dedicated" owners who provide firms with patient capital and effective governance, while institutional investors in the US tend to be "transient" owners or "quasi-indexers".

Because of the important differences among investors regarding their risk preferences, their attitudes toward corporate social responsibility, and their investment strategies, managers can attract and keep the "right" investors by clearly communicating with investors about their strategies and carefully managing investor expectations (Bushee 2004). Moreover, a change in corporate strategy (e.g., from a focus on growth to a focus on earnings, or from a focus on financial performance to a focus on both financial and social performance) can have a significant impact on the composition of the firm's investors.

Even if the firm has a few large investors, managers' can influence ownership structure by taking strategic initiatives that generate disagreement and debate among investors about the strategic direction of the firm. An example is Hewlett Packard Corporation's much contended merger with Compaq Computers (Fiorina 2003). After the proposed deal was announced on September 4, 2001, it was strongly opposed by the Hewlett family and, to a lesser extent, by the Packard family. Walter Hewlett, the eldest son of HP cofounder Bill Hewlett and the chairman of the Hewlett Foundation, launched a proxy fight to block the proposed merger. After the votes turned out to be in support of management and the merger was approved at a special shareholder meeting, the Hewlett Foundation and other investors who strongly opposed the deal began to sell their stocks at a fast rate to reduce their ownership in the company (Fortune 2003).

Corporate strategies such as mergers and acquisitions (M&As) can not only attract and keep the "right" investors, but also affect the level of ownership concentration. In general the level of ownership concentration in the merged company is reduced due to the increase in the number of shareholders outstanding. An example is the Exxon-Mobil merger in 1999. Exxon paid 1.32 shares for each share of Mobil. Because Mobil had 780 million shares outstanding premerger, Exxon paid 1,030 million shares to acquire Mobil. Together with Exxon's 2,431 million shares outstanding premerger, the merged Exxon-Mobil had a total of 3,461 million shares outstanding, of which 70.2 % owned by the shareholders of Exxon and 29.8 % owned by the shareholders of Mobil (Weston 2002). Assuming that there was no significant ownership change during the merger, the level of ownership concentration at the merged Exxon-Mobil was significantly reduced relative to that at the premerger Exxon and Mobil, respectively.

The reduced level of ownership concentration due to mergers and acquisitions can have important implications for corporate governance and strategic management. Although large investors may still have strong incentives to monitor managers, their ability to influence managerial decisions and to discipline managers is reduced due to their reduced ownership level as a proportion of the total shares outstanding. Therefore, we assert that major mergers and acquisitions can not only increase managers' pay and social status due to the increase in firm size, but also give managers more discretion in future strategic decision making due to the reduced level of ownership concentration.

An exception to the above assertion is when the target firm is largely owned by one or a few major investors. In this situation, although these investors' ownership in the acquiring firm is lower (in terms of percentage) compared with their ownership in the acquired firm before the acquisition, it can still be significant and give them strong influence in the acquiring firm. An example is Disney's acquisition of Pixar Studios in January 2006. According to Disney CEO Robert Iger, the acquisition represented an important strategic move by Disney to enhance its animation and to drive growth across all its business (CNNMoney.com 2006). Because Pixar was primarily owned by Steve Jobs, the CEO of Apple Computer and Pixar, the acquisition placed over 7 % of Disney's stocks in the hands of Jobs, making him the only large block shareholder with more than 5 % of the company's ownership (MSN Money 2008). Thus, Disney's acquisition of Pixar actually increased ownership concentration at the company.

## 3.2 Private firms

Private firms are those firms that are not publicly traded on stock exchanges and are not owned by governments. The ownership of these firms tends to be concentrated in the hands of a small group of people, mostly the founders and/or their families. Although some private firms hire professional managers to run operations, the owners generally have effective control over major decisions. Like publicly traded firms, strategic actions such as mergers and acquisitions can have a significant impact on these firms' ownership structure and governance. However, one of the most important strategic decisions for these firms is concerned with whether or not to become a publicly traded firm through an IPO.

There are many benefits for private firms to become a publicly traded company from a strategic management perspective. One major benefit is to gain access to a source of financing outside of banks and venture capital. The opportunity to raise capital in the stock market is particularly appealing and important to firms that pursue a high growth strategy with a lot of investment opportunities (Pagano et al. 1998). Moreover, it gives firms greater bargaining power with banks. By gaining access to the stock market and disseminating information to investors, firms elicit outside competition to their lenders and ensure a lower cost of credit, a larger supply of external capital, or both (Rajan 1992). Listing on a major stock exchange can act as an advertisement for the firm and increase its name recognition among investors, customers, and suppliers (Merton 1987). Lastly, the presence of investors, particularly institutional investors, can promote corporate restructuring, restore active governance, and thus have a positive impact on firm profitability (Faraci et al. 2005).

Going public can also bring private financial benefits to the firms' initial owners. One direct financial benefit is to increase their personal wealth by exploiting the overvaluation of their companies by investors (Ritter 1991; Zingales 1995). Because stock prices do not always reflect the firm's fundamental value, there are periods in which firms are overvalued. Entrepreneurs and owners of private firms can decide to go public when their firms are most likely to be overvalued. Providing support for this argument, research shows that firms are more likely to go public when market performance for their industries or sectors are particularly strong (Lerner 1994) and that the long-term returns to investors tend to be low after IPO (Ritter 1991). In addition, owners can diversify their personal investment portfolio by divesting from the firm and reinvesting in other assets (Brenna and Franks 1997).

Meanwhile, going public is associated with significant costs. First, founders or the founding families and managers can lose their control over the firms (Ertimur et al. 2003). In a survey of chief financial officers at private firms considering IPO, Brau and Fawcett (2006) find that most firms that decide to forgo an IPO do so because management is afraid of losing decision-making control over the firm. Managers feel that going public invites shareholders to influence the governance process and limits their ability to set the firm's strategic direction. Because investors seek financial returns from their investment, firms face stronger pressure to deliver consistent revenue and profit growth after the IPO. This change can lead to a short-term orientation in firm actions, especially when most of the investors are "transient" investors (Bushee 1998).

Second, going public leads to a loss of secrecy (Yosha 1995). Because of the disclosure rules of stock exchanges, firms are required to disclose certain information about their finance and operations, some of that information, such as R&D and marketing expenses, can enable their competitors to better assess their strategies. Third, because investors are not well informed about the true value of the firms going public, they may not overvalue or even assign a fair value to them, especially to small and young firms that have low visibility and little track record (Chemmanur and Fulghieri 1999). Lastly, firms have to pay underwriting fees and registration fees during the IPO, and spend resources on auditing, certification, and dissemination of accounting information afterwards to meet the disclosure requirements (Ritter 1987).

Because of the benefits and costs, whether or not to go public clearly is an important strategic decision for private firms that can affect their ownership structure, governance, and subsequent strategies. Moreover, although this decision is influenced by the potential benefits and costs discussed above (Pagano et al. 1998), it is also likely to be influenced by the objectives of the founders and owners of the private firms as well as the strategies they put in place. For example, many entrepreneurs just want their firms to provide a stable source of income and have no intention to expand their business. Even if their firms are very successful, they have no intention to sell them to outside investors. This is probably one of the reasons why the majority of the firms in the world are privately owned family businesses and why many of them have been in the hands of the same family for generations (e.g., Schillaci and Faraci 2002).

On the other hand, if the objective is to grow the firm by exploiting all the potential investment opportunities, the founders and owners may pursue a diversification strategy, just like in publicly traded companies. This focus on growth can create strong pressure for the firm to go public so that it can raise capital in the stock market. In other situations, the entrepreneurs may want their firms to go public (or to be acquired by another big firm) from the start so that they can quickly increase their personal wealth (like many startups during the internet bubble in the late 1990s). Lastly, when private firms are engaging in restructuring to turnaround their businesses, they are more likely to open up to external investors, particularly institutional investors so that they can gain access to the needed capital and expertise brought in by these investors (Faraci et al. 2005).

### 3.3 Privatization

Many states, especially those in the emerging economies in Asia, Eastern Europe, and South America, have started to privatize state-owned enterprises (SOEs) since the 1980s. According to one study, more than 100 governments sold stakes in SOEs to private investors and raised over $1 trillion during the 1980s and 1990s (Megginson 2000). Most empirical studies find that privatization, including partial privatization, has a positive impact on firm profitability in both emerging and developed market economies (Djankov and Murrell 2002; Gupta 2005; Megginson and Netter 2001; Sun and Tong 2003).

One of the most popular explanations for the positive impact of privatization on firm profitability focuses on the difference in corporate governance between representatives of state ownership (i.e., government bureaucrats) and private owners (Shleifer and Vishny 1997). Because the main goal of government bureaucrats is to achieve social and political objectives that are often different from profit maximization, they do not have strong incentives to engage in corporate governance or to focus on firm profits in the assessment of managerial performance. In contrast, because the goal of private owners is to maximize financial returns, they are more likely to hold managers accountable for firm financial performance. Thus, the positive impact of privatization on firm profitability results from improvement in corporate governance performed by private owners. Consistent with this argument, recent research shows that state ownership significantly weakens the negative impact of firm financial performance on top management turnover at partially privatized firms in China, particularly when firm performance drops below the industry median (Shen and Lin 2009).

Just like the decision to go public for private firms, privatization is an important strategic management decision for the governments in the pursuit of their overall economic and political objectives. In addition to raising capital and improving enterprise efficiency and profitability, governments engage in privatization to pursue other objectives as well, such as introducing or promoting market competition, exposing SOEs to market discipline, encouraging foreign investment, and fostering wider share ownership (Megginson 2000). Because of the wide range of objectives, governments need to not only consider whether or not to privatize SOEs, but also which SOEs or which industry sectors to privatize, how to privatize these SOEs, as well as what types of private investors to attract in the privatization.

Governments' objectives and decisions during the privatization process can have important implications for the ownership structure and corporate governance at the privatized firms. For example, if the objective is just to raise capital and to seek the highest possible price, governments can directly sell SOEs to private companies or to a consortium of investors through open auction. In this situation, the ownership of the privatized firms is concentrated in the hands of one or a few large private owners, who will have enough incentive and enough power to monitor and control managerial decisions.

On the other hand, if the objective is to foster share ownership and to promote political support for economic reform among their citizens, governments often sell ownership shares to the public through share issue privatization (SIP) and deliberately set share prices below the expected market price so that individual citizen shareholders can reap short-term capital gains. Governments can also restrict the participation of foreign investors, particularly institutional investors in SIPs (Megginson 2000). This type of SIP can lead to ownership dispersion and managerial dominance in the privatized firms.

In other situations, governments may decide to only engage in partial privatization so that they can still exert strong influence over the partially privatized firms. Although research shows that partial privatization in India and China has a positive impact on firm efficiency, productivity and profitability (Gupta 2005; Sun and Tong 2003), governments can still use their influence to pursue social and political objectives other than profit maximization, especially when they still have the largest share of ownership and remain as a controlling shareholder at the partially privatized firms (Shen and Lin 2009).

### 3.4 Summary

Overall, our above discussion suggests that strategic objectives and actions can have a significant impact on a firm's ownership structure. At publicly traded firms, managers not only can strategically attract and retain the "right" type of investors, but also can reduce the level of ownership concentration at their firms through mergers and acquisitions. At private firms, the objectives of the entrepreneurs and owners influence their strategies and the decision of whether or not to become public. In the context of privatization, governments can strategically manage the privatization process and the ownership structure of the privatized firms to serve their objectives.

## 4 Conclusions

By focusing on the impact of strategic objectives and strategic actions on firm ownership structure, our paper develops a cyclical view of the relationship between strategic management and corporate governance. Namely, strategic management influences firm ownership structure, which in turn influences corporate governance and subsequent strategic decisions. Our intention is to draw attention to the impact of strategic management on corporate governance, which has been largely ignored in the literature or at least has not received the same level of attention as the impact of corporate governance on strategic management. Meanwhile, we want to point out that although powerful actors such as managers, owners, and governments can consciously try to change or influence the ownership structure in the firms they control, what actually happens can be very different from their design and expectations because of foreseeable and unforeseeable events. Therefore, we urge strategic management and corporate governance researchers not only to investigate the impact of strategic management on corporate governance, but also to explore factors that potentially moderate their relationship.

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