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Michael Kay Bednar
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**The Dissertation Committee for Michael Kay Bednar certifies that this is the
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How Symbolic Action Affects the Media as a Governance Mechanism

Committee:

James Westphal (Chair)

Martin Kilduff (Co-Chair)

James Fredrickson

Pam Haunschild

Violina Rindova

How Symbolic Action Affects the Media as a Governance Mechanism

by

Michael Kay Bednar, B.S.

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Dedication

To my wife, Charlotte.

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How Symbolic Action Affects the Media as a Governance Mechanism

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Supervisors: James D. Westphal and Martin Kilduff

This dissertation examines the potential for the media to act as a corporate governance mechanism and suggests how corporate leaders, through the use of symbolic action, can influence the media's ability to effectively enact this role. Specifically, I examine how media scrutiny may prompt firms to adopt governance structures that increase the structural independence of the board and thus, according to the prevailing agency logic of corporate governance, are thought to increase the board's ability to monitor and control corporate leaders. However, the adoption of structurally independent boards may be largely symbolic wherein formal structural changes in board independence are made without increases in the social independence of the board. I argue that symbolic responses to scrutiny will meet the media's expectations for proper governance and engender more positive subsequent evaluations in the media of the firm and its leaders. I conclude by showing why the effects of symbolic action on media coverage are important for a range of outcomes relevant to firms and CEOs including the likelihood of strategic change, CEO dismissal and compensation, and subsequent board appointments. By

influencing the manner in which they and their firms are portrayed in the media, firm leaders may enhance their reputations in the press and garner personal benefits. Thus, while agency theory focuses on the media's ability to curb agency costs, this study points out that because of the media's susceptibility to symbolic action, the press may actually perpetuate agency costs in some cases. Longitudinal analysis of a sample of S&P 500 firms provides some support for these ideas.

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Chapter 1: Introduction

Firms and corporate leaders are evaluated and scrutinized by a variety of constituents in the external environment including institutional investors, securities analysts, and journalists. In the governance literature, these parties are generally thought to exert pressure on firms to act in the interest of shareholders or other key stakeholders. While the governance literature has traditionally focused almost exclusively on financial stakeholders, the role of non-financial constituents such as the media has received less attention. Specifically the role of the media in exerting pressure on firms has been largely understudied despite the fact that firms have come under increased media scrutiny in recent years in the wake of high profile corporate scandals. This dissertation begins to address this oversight and takes a broader view of firm constituent relations by examining the role of the media as a corporate governance mechanism that can potentially reduce agency costs, shape firm reputation and affect important outcomes for firms and their leaders. In addition, it suggests how corporate leaders, through the use of symbolic action, can influence the media's ability to effectively enact this role.

Financial economists, drawing on agency theory, have suggested that the media may play an important monitoring role to reduce agency costs associated with managerial self-interest. According to this view, by disseminating negative press, the media can act as a governance mechanism and inflict reputational costs on firms or managers that act contrary to the interests of shareholders (Fama, 1980; Fama and Jensen, 1983; Wartick, 1992; Dyck and Zingales, 2002; Dyck et al, 2005). In addition, by reporting details about specific policies and practices of a focal firm, the media reduce information asymmetry

between managers and firm stakeholders. On the other hand, research in the organizational literature focuses more on the role of the media in the social construction of a firm's reputation and in conferring legitimacy (Fombrun and Shanley, 1990; Pollock and Rindova, 2003). According to this view, a firm's positive reputation in the media is a valuable resource for firms (Deephouse, 2000). However, the organizational literature suggests that the press may be prone to certain attributional biases, wherein they over-attribute outcomes to firm leaders as opposed to external factors and are somewhat inertial in their coverage of firms and leaders, which could potentially reduce the media's effectiveness in this monitoring role (Meindl et al, 1985; Hayward et al 2004; Chen and Meindl, 1991).

In this study I build on a symbolic perspective of corporate governance to begin to reconcile these differing views on the role of the media as a governance mechanism. Consistent with the agency perspective, I propose that negative press coverage may prompt changes in board structure that increase the formal independence of the board and thus conform to institutionalized norms about corporate governance. However, firms may respond to such scrutiny with changes that are largely symbolic (Pfeffer, 1981; Meyer and Rowan, 1977; Sutton and Galunic, 1996) wherein they make formal structural changes in board independence, yet fail to increase the social independence of the board. In part because an agency logic of corporate governance has become institutionalized over the years (Zajac and Westphal, 2004), and because social factors that affect governance are less salient to external parties, journalists and other external constituents are likely to focus exclusively on the structural independence of the board while overlooking social factors that may affect independence. Thus, symbolic responses to

scrutiny from the press may meet the media's expectations for proper governance and engender positive subsequent responses from the media about the firm and its leaders.

The ability of firms and leaders to influence their portrayal in the media through symbolic action may have important consequences for firms. Negative press coverage may serve as a mechanism to reduce agency costs associated with managerialist tendencies of leaders, increasing the likelihood of strategic change while also curbing CEO pay, and increasing the likelihood of dismissal. Similarly, positive press may buffer firm leaders against these outcomes. Yet, while negative press may serve to control some agency costs, by engaging in symbolic action, firm leaders may be able to enhance their reputations by increasing the favorability of subsequent press, and thereby decrease the media's effectiveness as a governance mechanism. Thus, while agency theory focuses on the media's ability to curb agency costs, this study points out that because this agency perspective has become institutionalized, the media may be influenced by symbolic action. Because of increased favorability of press coverage as a result of symbolic action, and the effect of the press on a range of firm outcomes, the press may actually perpetuate agency costs in some cases. This study therefore suggests that by engaging in symbolic action, leaders of firms can influence the social construction process by which their reputations and that of their firms are formed.

Contributions

This dissertation will potentially make several theoretical and empirical contributions. First, it will contribute to the governance literature by addressing the potential for the media to serve as a governance mechanism, testing the idea that the media can reduce agency costs across a variety of firm and CEO outcomes. Second, this

study will examine the vulnerability of the media to symbolic action by firms and leaders whereby the press is influenced by easily observable cues about the strength of a firm's governance even when such changes may not actually increase control of the board over management. Finally, this study suggests how, because of its vulnerability to symbolic action, the media may be less effective as a governance mechanism and in some cases, may actually perpetuate agency costs.

Scholars have recently begun to examine the role of the media as an important external constituent, with some scholars in the financial economics literature suggesting that the media may play a governance role to reduce agency costs at a firm (Dyck and Zingales, 2002; Core et al., 2007). This study suggests that an agency view of the media as a governance mechanism is incomplete. By taking a more behavioral view, this study will help us to better understand the potential limitations of the media as a governance mechanism. On the one hand, consistent with the agency perspective, the press may inflict reputational costs on firms by monitoring and reporting on the actions of corporations and their leaders. Given the salience of negative information for decision makers and the potential for reputational costs from negative press, increased negative media coverage is proposed as a mechanism which prompts firms to adopt governance structures which conform to the prevailing agency logic of corporate governance. On the other hand, the changes prompted by the media may be largely symbolic in nature wherein they conform to widely held beliefs about what is appropriate governance but do so in a way that enable firm leaders to further their own preferences. To the extent that the media is influenced by symbolic action it could be less effective in this monitoring

role. By examining the susceptibility of the media to symbolic action, this study will examine more closely what role the press actually plays in the governance of firms.

In addition, this study will contribute to our knowledge of how the media can influence the reputations of firms and corporate leaders (Pollock and Rindova, 2003; Deephouse, 2000), and how those same leaders and firms may shape the social construction of their reputations. Prior research has suggested that firm reputation is enhanced through demonstrations of technical expertise or what could be termed more substantive characteristics (Rao, 1994). This study argues that in addition to substantive actions, leaders may enhance their reputations as portrayed in the media by engaging in symbolic action and thereby receive material benefits. Thus, this study offers one mechanism by which firms and leaders may counteract the pressure inflicted by media scrutiny and emphasizes how symbolic action can play an important role in the social construction of reputation.

This study contributes to the growing literature which suggests that corporate governance policies may be viewed as symbolic phenomena (Zajac and Westphal, 1995; Wade et al., 1997; Westphal and Zajac, 1998; Porac et al., 1999; Fiss and Zajac, 2004; Davis, 2005) and shows how symbolic action may be used to reduce pressure from the media. Consistent with prior research, this study suggests that structural independence is not sufficient to ensure good governance and that social factors should also be considered when evaluating the independence of the board. Yet, conforming to institutionalized norms of appropriate governance may enhance a firm's reputation in the media even when decoupled from social factors that have been shown to affect the board's ability to exert control. The institutionalization of the agency logic provides leaders the

opportunity to engage in symbolic action whereby they reap legitimacy benefits of conformity while maintaining governance structures that allow for the fulfillment of their personal preferences. By examining how symbolic action may affect media coverage of firms and leaders this study adds to the scant literature on the consequences of symbolic action. In contrast to studies examining the direct effects of board structural characteristics on firm performance and other important firm outcomes that have been largely unsuccessful (Dalton et al., 1998; Bhagat & Black, 2002; Tihanyi et al., 2003), this study suggests that the adoption of institutionalized board structures may legitimize a firm, thus enhancing the portrayal of firms and leaders in the press. Thus, while a direct link between board structure and important firm outcomes may be difficult to find, this study suggests an intermediate benefit of adopting institutionalized board structures – increased reputation in the media.

This study will contribute to a growing literature in strategy and organization theory on the relationships between organizations and external constituents (Rindova and Fombrun, 1999) by showing how one external constituent (the media) may influence organizational action. In addition, this study shows how leaders may have indirect effects on their organization through external constituents, specifically by influencing how their firms are portrayed in the media. While recent theoretical work has suggested that media coverage of firm leaders may have an effect on firm outcomes (Hayward et al., 2004) this study will be one of the first to empirically examine the organizational effects of media coverage. Thus, this dissertation will contribute to the work on CEO and firm celebrity but may also contribute more broadly to the literature on

upper echelons by suggesting how media coverage of firms and leaders may serve as an important mediator between individual characteristics and firm outcomes.

Finally, this study will provide a methodological contribution. By developing a method for systematically examining the portrayal of firms and leaders in the press, this study will encourage future research that draws on media accounts of the business world.

Chapter 2: Literature Review

Much organizational research has focused on the relationship between firms and their external environments (Thompson, 1967; Pfeffer and Salancik, 1978).

Organizational scholars have recently shown increased interest in the relationship between organizations and external constituents, including information intermediaries such as financial analysts and journalists (Rao, 2001; Pollock and Rindova, 2003; Deephouse, 2000). While the effects of financial analysts on firms have received much attention among scholars of organizations from different disciplines, the role of the media in shaping firm reputation and influencing firm action has received considerably less examination. Given the potential for the media to affect public opinion on a range of important issues, surprisingly little research has examined the effects of the media on organizations and their leaders. In the following section, I will review literature that explores the interplay between firms and the media. I will also review literature on symbolic management that will provide the background for my arguments about why the media may be influenced by symbolic gestures.

Media Effects

Research attempting to uncover the effects of the media on the public has been ongoing for many years mainly in the field of communications. Early research sought to find direct effects of mass communication on the attitudes and behaviors of the general public. Later communication researchers recognized that media effects were more nuanced and began focusing on intervening processes and indirect effects of the media. Perhaps the most widely acknowledged theory of media effects is the agenda setting

perspective which suggests that the media affect public opinion by setting the agenda of issues that are deemed most important (Mccombs and Shaw, 1972). According to the agenda setting literature, the media are generally effective in telling people what to think about. Thus, the mass media sets the agenda for what is deemed important by the public. While first level agenda setting is concerned with what the public thinks about, second level agenda setting is concerned with the effects of the media on how people think about issues. According to this view, the media play a role in framing issues and thus may affect public opinion about important topics. Much of the research on second level agenda setting has been focused on the public's perception of political candidates based on how such individuals are portrayed in the media (Golan and Wanta, 2001; Mccombs, et al, 1997; Tedesco, 2001). The research generally supports the idea that the media can influence the issues that are deemed most important to the public, and how political figures are perceived by the public. From this literature, one can easily infer that the media may be very important in shaping the reputations of firms and leaders and might affect how they are perceived by a range of constituents. However, while the agenda setting paradigm has contributed to our understanding of media effects in general, little research has examined the effects of the media specifically on firms (See Deephouse, 2000 and Pollock and Rindova, 2003 for exceptions). Given the increase in media interest about issues related to business, this oversight is somewhat surprising. Insights from financial economics and organizational theory can help us better understand the role of the media for modern corporations.

Agency Perspectives

Recently, scholars in the financial economics and organizational literatures have begun to examine the role of the media in providing information about firms to external constituents and in affecting the reputations of the firms that they cover. Research in the financial economics literature has tended to use an agency perspective to suggest that the media can serve as a corporate governance mechanism to reduce agency costs and information asymmetry (Dyck and Zingales, 2002; Dyck et al., 2005). Agency theory is primarily concerned with the role of principals and agents and the conflicts that arise when the interests of each are not aligned (Eisenhardt, 1989). In large corporations, agents (managers) are hired by principals (owners or shareholders) to run the day to day operations of the firm (Fama and Jensen, 1983). Problems arise due to information asymmetries and differing incentives between principals and agents. Because ownership in large corporations is widely dispersed, managers enjoy considerable information advantage over shareholders that could potentially be used for their own personal gain. In addition, it is impractical for individual shareholders to effectively monitor the behavior of managers to ensure that they are acting in the best interest of shareholders. Thus, monitoring mechanisms such as an independent board or financial incentives are put in place to reduce the probability that managers will champion policies to increase their own power and wealth at the expense of shareholders. Agency theory also suggests that managers and directors will seek to protect and enhance their reputation to ensure future employment opportunities (Fama, 1980; Fama and Jensen, 1983). Thus, the threat of reputational damage is one mechanism that can curb managerial self-interest.

According to this view, the media act as an information intermediary to reduce the cost of collecting information and provide increased access to a wealth of information about companies that would otherwise be extremely difficult to gather. By reducing the costs of information acquisition, the media can help individuals to overcome the rational ignorance problem which occurs when the costs to individuals of gathering information exceeds the benefits of such activity, making it rational for individuals to remain uninformed (Downs, 1957). Thus, the media make information about the firm easily accessible to large numbers of people and thus reduce information asymmetries between management and shareholders or other constituents.

Because the press can easily disseminate information to the public, press coverage can also affect the reputations of managers and firms. The media can serve as a corporate governance mechanism to reduce agency costs that are incurred through managerial self-interest by damaging the reputation of managers or firms through the publication of negative news. In fact, Dyck and Zingales (2002) suggest that the primary way that the press serves as a governance mechanism is by increasing the reputational costs of misbehavior. They cite the example of Robert Monks, a well known shareholder activist who once took out a full page ad in the Wall Street Journal in which he identified the board of directors of Sears under the title “The Non-performing Assets of Sears.” Following this public humiliation, the board adopted several of the reforms that Monk called for. While this anecdote suggests that the media may influence actions taken by firms, surprisingly, not much research has been conducted as to the effectiveness of the media in this governance role or on what firm and managerial outcomes the press may affect. Literature on shaming in corporate law sheds some light on how the media may

affect the reputations of firms and leaders. In a sense, the media can shame actors who act in unacceptable ways (Skeel, 2001). Shaming occurs when “citizens publicly and consciously draw attention to the bad dispositions of another as a way of punishing him for having those dispositions or engaging in those actions (Kahan and Posner, 1999: 368).” For firms and corporate leaders, the press can potentially bring self-interested managerial behavior to the public light where it may have adverse consequences for individual managers or firms. Bad press can hurt a top manager’s reputation in their own firm inducing the board to act to remove a tarnished CEO (Farrell and Whidbee, 2002). In addition, bad press may hurt the manager’s reputation in the larger business community and even among family members, friends, and associates. The press can therefore act as a significant motivator to prompt changes.

The little empirical work on the role of the media in corporate governance provides some support for this agency perspective. In a recent example, Louis and colleagues (2004) find some evidence that inclusion on the Business Week worst boards list may serve as a motivator for firms to enact governance changes. Other research suggests that large public pension funds such as CALPERS may use the media to shame firms into enacting governance changes (Smith, 1996). In the accounting literature, Miller (2006) suggests that the press may serve a watchdog role by reporting on accounting fraud. Joe (2003) finds that the negative press may actually influence audit decisions even when the press reports provide no new information about the firm. Her research suggests that negative media coverage may bias the judgments of an important external constituent. Media scrutiny can also have an effect on outcomes relevant to the careers of CEOs. For example, Farrell and Whidbee (2002) find that media scrutiny of

CEOs and their firm's performance was greater in a sample of fired CEOs than in a matched sample of CEOs who were not forced out. Some work has tried to demonstrate a link between negative press and firm compensation practices. For example, Johnson et al., (1997) in a study of how external pressure from various stakeholders can affect compensation, find that increases in negative articles about a firm's compensation practices result in smaller subsequent increases in total compensation and a larger increase in the sensitivity of compensation to firm performance. In a more recent study Core et al., (2006) finds that firms do not decrease overall levels of compensation in response to negative press, although they may make more cosmetic changes to the mix of pay to make pay packages seem more acceptable. In summary, the agency perspective on the role of the media as a governance mechanism seems to focus primarily on the dissemination of negative press and how such negative press coverage may impose reputational costs to firms and managers, thus prompting changes that are perceived to be better aligned with shareholder interests.

Organizational perspective on the media

In the organizational literature, the media have often been viewed as a propagator of legitimacy (Fombrum, 1996; Fombrum and Shanley, 1990; Hoffman and Ocasio, 2001). In other words, the media do not merely reflect public evaluations of firm legitimacy but can also affect a firm's legitimacy. For example, Pollock and Rindova (2003) found that IPO firms that received greater press coverage had less underpricing and turnover at the time of IPO, presumably because of increased information about the focal firm. Because there is much uncertainty regarding IPO firms, the press helps to establish the reputation of these firms among potential investors. The authors also found

that at very high levels of positive press, underpricing was actually increased, perhaps due to the increased buzz surrounding the firm. Their study demonstrates the important role that the press plays in conferring legitimacy on firms. It also suggests two important aspects of a firm's reputation in the press: visibility or the amount of coverage that a firm receives, and tone of the press coverage. Another recent study finds that media reports of firm corporate governance practices, specifically, being listed on Business Week's best or worst board list, can affect market reactions (Johnson et al., 2005). These studies suggest that the media may influence the reactions of external constituents to a firm.

The media may also affect a firm's reputation in the way it reports different aspects of the firm. Deephouse (2000), using a sample of local newspaper articles about Minnesota banks, found that a bank's media reputation was a strategic resource that actually led to increased financial performance in subsequent time periods. He argued that favorable press coverage was a valuable, rare, and difficult to imitate resource that affected the views of external stakeholders and thus led to increased performance. This study suggests that the media may serve an important role in shaping a firm's reputation and that a positive reputation can contribute to overall performance. One of the ways that firms can build a positive media reputation is through conformity to generally accepted practices. In earlier work, Deephouse (1996) found that strategic isomorphism among banks served to legitimate them in the media as evidenced by more positive media coverage. Other studies have equated media favorability with the legitimacy of a firm. For example, Bansal and Clelland (2004) suggest that a firm's corporate environmental legitimacy is reflected by the favorability of news articles in the Wall Street Journal concerning the firm's environmental performance. They found that positive coverage of

a firm's environmental dealings reduced unsystematic risk in the firm's stock returns. As opposed to the agency perspective on the media as a governance mechanism, the few studies in the organizational literature seem to focus more on the effects of positive press on a firm's legitimacy in the marketplace. These studies are consistent with research which suggests that firms can obtain advantage not just through the provision of products and services, but also through strategic projections wherein firms shape how they are viewed by external constituents (Rindova and Fombrun, 1999).

Organizational scholars have also suggested that the press may be prone to certain attributional biases wherein they tend to attribute firm outcomes disproportionately to firm leaders, even when other external causes may serve as alternative explanations (Meindl et al., 1985). The "romance of leadership" perspective suggests that the tendency to attribute firm outcomes to leaders may result from a desire that people often have to feel that leaders are in control of situations. Building on this idea of the romance of leadership, recent theoretical work suggests that by over attributing firm outcomes to leaders, journalists may play an important role in creating CEO celebrities (Hayward et al, 2004). Recent work questions whether celebrity CEOs are beneficial to the long term performance of the firm and for the career prospects of CEOs (Wade et al., 2006). CEOs that are lauded in the press may actually be more likely to engage in value destroying behavior such as the misuse of company resources (Hamilton and Zeckhauser, 2004). In effect, this work suggests that by building up CEO celebrities, the press may actually contribute to agency costs.

In addition, work in this stream suggests that the press may be quite inertial in their coverage of leaders wherein they tend to persist with initial positive coverage of an

individual even in the face of mounting information that the leader may be failing (Chen and Meindl, 1991). Chen and Meindl (1991) tracked the press coverage of Donald Burr, founder of People Express airline. Because initial reports of Burr were very positive, subsequent reports continued to be quite positive even when performance at the airline declined substantially. Journalists have an incentive to remain consistent in their coverage of firms and leaders to instill confidence in their reporting. Consistency in reporting is often a sign of credibility. Thus, the press may suffer from a type of persistence in its reporting on firms and their leaders.

Symbolic Management

While the financial economics literature generally asserts that media scrutiny prompts firms to make changes to reduce agency costs, work in the organizational literature suggests that leaders often make symbolic changes in response to increased scrutiny. Symbolic actions can be defined as those which portray a positive image of the firm, beyond the direct effects of the action itself (Pfeffer, 1981; Zott and Huy, 2005). Sutton and Galunic (1996) suggest that intense public scrutiny from outside parties can cause leaders to become distracted in their duties and engage more time and effort toward symbolic activities. In addition, they suggest that intense scrutiny can cause firms and leaders to focus more on how the firm should act, (i.e., generally accepted practices that conform to prevailing norms) while paying less attention to what the firm actually does. One form of symbolic action is decoupling (Meyer and Rowan, 1977), in which firms adopt formal structures that conform to prevailing institutional norms without changing the technical core and therefore buffer themselves from institutional pressures. Pressure from the media may prompt this type of decoupling. For example, Weaver and

colleagues (1999) found that increased media scrutiny of corporate social responsibility led to the adoption of easily decoupled structures that conform to widely held norms but that do not necessarily prompt substantial change. While intense scrutiny may prompt symbolic action by firms, studies have not examined how the media respond to substantive vs. symbolic actions of firms and corporate leaders.

The idea that firms may respond to media scrutiny in a symbolic manner is consistent with the literature on management as symbolic action (Dowling and Pfeffer, 1975; Pfeffer, 1981; Meyer and Rowan, 1977). Pfeffer (1981) argues that the task of management is directed both internally, to promote collective action, and externally, to legitimate organizational action according to prevailing accepted norms. Thus, symbolic management can be focused either within the organization or towards external constituents. In this paper, I focus primarily on symbolic management aimed at legitimating the firm in the eyes of external constituents, specifically the press. Research on symbolic action has drawn on psychological theories of impression management to examine the verbal accounts used by leaders to enhance their reputations with external parties (Ginzel, Kramer and Sutton, 1992; Staw et al., 1983). Research in the macro vein has examined how structures and procedures can be used to enhance legitimacy (Meyer and Rowan, 1977). Some have even tried to combine these two areas of symbolic research showing how verbal accounts that reference institutionalized structures or procedures may enhance legitimacy (Elsbach, 1994). I build on research from the macro symbolic perspective which suggests that firms may adopt structures or policies that appear to conform to the institutional environment, thus gaining the benefits of increased legitimacy without necessarily changing anything substantive in the organization. This

decoupling between formal administrative structures and actual firm actions may serve to assuage the concerns of external parties, thus increasing a firm's legitimacy while allowing managers to pursue their own interests.

Pfeffer (1981) suggests that symbolic responses may be sufficient when external parties have neither the time nor the expertise to investigate the substantive value of organizational action. Symbolic responses may also be sufficient because in the absence of the ability to specify precisely what is desired or to assess the multiple dimensions of organizational outputs, parties in contact with the organization may desire only some reassurance that their interests are being seriously considered within the organization. In the case of corporate governance, it is difficult for an outside observer to discern whether or not a given firm is well governed. Thus, outsiders must rely on outward, easily observable signals of good governance.

The rise of institutional logics may facilitate decoupling. Institutional logics are defined as the "historically-variant sets of assumptions, beliefs, values, and rules by which individuals . . . interpret organizational reality and what constitute appropriate behavior" (Thornton and Ocasio, 1999:804). Firms typically gain legitimacy by adopting structures, policies and practices that conform to the prevailing institutional logic. Corporate governance scholars have documented the rise of an agency logic of corporate governance that has become institutionalized such that the principles and practices espoused by agency theory are generally viewed as promoting proper governance. As the agency logic of governance has become institutionalized, corporate governance mechanisms are increasingly being viewed as symbolic phenomena in which formal structure and substantive change are often decoupled (Wade et al., 1997; Westphal and

Zajac, 1998; Porac et al., 1999; Fiss and Zajac, 2004; Davis, 2005). For example, compensation policies such as long term incentive plans that appear to align the interests of managers and shareholders, engender positive reactions even when these policies are not implemented (Westphal and Zajac, 1998). Because the prescriptions of the agency logic, including those relating to appropriate compensation policies, have become taken for granted as representing good governance, external observers are satisfied with the outward appearance of such policies whether or not there is substantive change in the actual practices of the organization. Similar results have been found in the announcement and implementation of stock buyback programs (Westphal and Zajac, 2001).

One prescription of the agency logic is the idea that the board of directors should be composed primarily of independent outside directors in order to successfully counteract the tendencies of management to pursue their own interests rather than the interests of shareholders. Over the years, this idea has become so prevalent that some parties now equate good governance with having independent outside directors (Coombes and Watson, 2000). In addition, although less widely adopted, the idea that the CEO and board chair positions should be separated has also been strongly advocated by governance experts and other external constituents. Research in the institutional literature has shown that once a policy becomes institutionalized, it may provide substantial legitimacy benefits, regardless of whether it provides any efficiency benefits (Staw and Epstein, 2000; Westphal et al., 1997). In the case of board structures, to the extent that the agency logic has become institutionalized, the adoption of board structures that conform to this logic such as having a board consisting primarily of independent outsiders or separating the board chair and CEO positions should confer legitimacy

benefits. However, there have been many studies showing that the structural independence of directors does not guarantee pro-shareholder actions by firms (Dalton et al., 1998). In addition, there is compelling evidence that social factors such as differences in status between board members and CEOs, informal social relationships, or social similarity on a range of characteristics play a substantial role in ensuring that directors carry out their monitoring role (Belliveau et al., 1996; Wade et al., 1990). The empirical evidence suggests that social independence of directors, together with increases in formal independence may be a better predictor of board monitoring behavior than simply nominal independence. In other words, increases in the structural independence of the board may be insufficient to ensure increases in the actual monitoring behavior of boards. However, given the roots of the agency logic in economic theory, the focus of the agency logic is almost entirely on structural factors with little attention given to issues of social independence. Thus, external parties in their evaluations of a firm's governance are likely to rely almost entirely on the outward, easily visible signal of formal board independence while ignoring social independence which can also affect the governance capabilities of the board.

In summary, the symbolic perspective on organizations suggests that firms and managers often decouple formal structures from firm action in an effort to appease external constituents without necessarily making substantive changes. In the following section, I outline hypotheses that draw on this symbolic perspective of organizations to argue how firms may adopt symbolic governance structures in response to pressure from the press. I then argue how these actions, by shaping subsequent media coverage of the

firm and its leaders may actually perpetuate certain agency costs while appearing to conform to institutional norms.

Chapter 3: Theory and Hypotheses

The Media and Changes in Corporate Governance

Media interest in firms and their corporate governance practices has increased substantially in recent years, especially following a wave of high profile corporate scandals at several large companies. Occasionally, the media have taken an active role in disseminating negative information about firms, especially those that appear to have lax corporate governance standards. For example, Business Week regularly highlights firms with governance problems in their list of the worst corporate boards (Johnson et al, 2005; Louis et al., 2004; Byrne, 2000). Large institutional investors such as CALPERS publish lists of poorly governed firms which are reported frequently in the media (Smith, 1996). In addition to these more visible efforts by the media, the business press continues to scrutinize companies for large payouts to executives and for failure to meet shareholder, analyst and other stakeholder expectations. In the financial economics literature, some have suggested that by disseminating negative information about a firm, the press can serve as a type of governance control mechanism, prompting managers to act in the interests of shareholders (Dyck and Zingales, 2002). Because the information conveyed in the press is accessible to a wide range of constituents, the threat of negative press should act as a strong motivator of action due to the potential negative effect of such press on a firm or leader's reputation. Research suggests that negative events or attributes tend to carry more weight in the formation of impressions and are more influential in the decision making process (Fiske, 1980; Rozin and Royzman, 2001, Baumeister et al., 2001). Due to the extreme salience of negative information for managers and board members, it is likely that negative press will act as a triggering

mechanism which prompts firms to take action. At the same time, positive press may actually buffer firms from the need to change.

By reporting on individual firms and firm actions, the media can exert pressure on firms to conform to institutional norms. Institutional theory suggests that firms often face substantial pressures from the institutional environment to conform to widely held norms and practices (DiMaggio and Powell, 1983). Such institutional pressures can come from the state, norms in a profession, or from uncertainty that leads firms to imitate the practices of others. Other external constituents such as employees, institutional investors, or governance advocates can also exert pressure on firms to meet their own demands. Thus, managers have the difficult task of satisfying pressures from a range of external constituents while maintaining legitimacy in the institutional environment. To maintain legitimacy, managers are likely to respond to negative press by taking actions that demonstrate conformity to institutional norms. For example, negative press about a firm's governance policies, can make agency problems salient to investors, analysts and other constituents and such exposure can lead firms to adopt formal governance mechanisms that assuage constituents concerns about the governance practices at the firm. In effect, the press may shame firms into adopting widely accepted structures and policies that appear to correct agency problems (Skeel, 2001).

While the media may pressure firms to adopt certain governance structures, the practices that are currently accepted as representing good governance have been highly influenced by agency theory, which is rooted in economics (Fama and Jensen, 1983). In fact, governance scholars have documented the rise of an institutional logic rooted in agency theory. Institutional logics are defined as "historically-variant sets of

assumptions, beliefs, values, and rules by which individuals . . . interpret organizational reality and what constitute appropriate behavior” (Thornton and Ocasio, 1999:804; Zajac and Westphal, 2004). The agency logic of corporate governance stems in part from the development of a shareholder value perspective on organizations that prescribes a host of strategies and policies that are aimed at increasing shareholder value (Fligstein and Shin, 2007; Davis, 2005). The agency logic includes the idea that mechanisms must be put in place to control self-interested managers and that managers should be held accountable for their actions. Out of this logic, certain practices designed to align the incentives of managers and shareholders have become taken-for-granted as representing good governance (Zajac and Westphal, 1995; 2004). Examples of prescriptions that are perceived as reducing the potential for agency costs include among others the adoption of long term incentive plans, the repeal of anti-takeover provisions, and the appointment of independent outside directors who can successfully monitor top managers.

Agency theorists have argued that control mechanisms, such as having a board consisting primarily of independent outsiders, are critical to increasing shareholder value by reducing agency costs at a firm (Fama and Jensen, 1983). Agency theorists argue that such control mechanisms must be put in place to restrain self-interested managers and align the interests of managers and shareholders (Fama and Jensen, 1983; Beatty and Zajac, 1994; Hillman and Dalziel, 2003). According to this perspective, the board of directors is one of the most important control mechanisms used by firms. The agency logic conveys the idea that boards consisting primarily of independent outside directors will be better able to monitor the actions of management for the benefit of shareholders because outside directors are not employed by the focal firm and should therefore be

better able to give impartial advice about strategic issues at the firm. In addition, outside directors should be less beholden to the CEO and can therefore be more objective in their evaluations of CEO performance. Although not as widely adopted, the separation of the CEO and board chair positions is perceived by governance advocates as a way to strengthen the ability of the board to monitor and control the CEO (See Dalton et al., 1998 for review). When the CEO holds both positions, critics argue that the CEO has undue influence over the board.

Because this agency logic has become institutionalized, firms face institutional pressures to adopt formal governance structures that are widely perceived as conforming to the logic and promoting good governance. Failure to adopt conforming practices may result in decreased legitimacy by external constituents (Deephhouse, 1996). By adopting board structures that conform to widely held beliefs about good governance, firms may increase their structural legitimacy which may also affect the perceived process legitimacy of the board (Suchman, 1995). In summary, because the agency logic of governance that has become taken for granted, negative coverage should increase the likelihood that a firm will try to alleviate external pressure by adopting governance structures such as increases in independent directors or separation of the CEO and board chair positions that conform to this institutional logic.

However, while less favorable coverage of firms may encourage increases in formal independence, such changes may be largely symbolic. Prior research suggests that when faced with increased scrutiny from external sources, including the press, firms often engage in symbolic activity (Sutton and Galunic, 1996). In response to external scrutiny from the press and other external constituents, managers often attempt to make

changes in policy or structure that will satisfy external constituents but that will not necessarily involve substantive changes in actual practices (Pfeffer 1981; Meyer and Rowan 1977). Meyer and Rowan (1977: 349) argued that “by designing a formal structure that adheres to the prescriptions of myths in the institutional environment, an organization demonstrates that it is acting on collectively valued purposes in a proper and adequate manner.” These changes in formal structures often are symbolic in nature given that “the appearance rather than the fact of conformity is often presumed to be sufficient for the attainment of legitimacy (Oliver, 1991: 155).” Thus, decoupling can occur between formal policies and actual practices in organizations. The task of management becomes largely symbolic, one of explaining organizational action in a way that legitimates the firm to outside constituents (Pfeffer, 1981). For example, prior research has shown how managers engage in impression management to portray organizational actions as conforming to prevailing institutional norms (Elsbach 1994).

Prior research suggests that corporate governance mechanisms such as long term incentive plans or firm policies such as stock repurchase programs may be used as symbolic gestures that give the appearance of conformity to institutional norms about proper governance even when such plans are not implemented (Westphal and Zajac 1998; 2001). Such decoupling between formal policy and actual practice is facilitated by the institutionalization of the agency logic of corporate governance such that certain practices may have become taken for granted as reflecting good governance regardless of their substantive effect (Zajac and Westphal, 1995). Despite the claims of agency theory that structurally independent boards are effective at increasing monitoring behavior and reducing agency costs, studies have typically shown little or no effects of board structure

on overall firm performance (Dalton et al., 1998). However, to the extent that the agency logic of corporate governance has become institutionalized, the adoption of board structures that agency theory extols as facilitating increased monitoring and reduced agency costs may also carry symbolic value by increasing the perception among outside parties of the quality of a firm's governance. Firms can gain legitimacy in the eyes of external constituents by adopting institutionally accepted governance practices.

At the same time, research suggests that boards must not only be formally independent, but must also be socially independent in order to facilitate good governance (Wade et al, 1990; Main et al, 1995; Belliveau et al, 1996). Social independence deals with factors that may impair directors' ability to impartially evaluate management. Past research has found that CEOs who have social influence over board members, who are socially similar on a range of characteristics and who have informal relationships with directors may be able to secure personal benefits. Directors that are similar to the CEO on a range of characteristics such as functional and industry background, educational background, age, or other qualities may experience similarity-attraction bias wherein individuals tend to sympathize with others who are similar with respect to salient characteristics. In this case, outside directors who share salient similarities with the CEO may be more likely to sympathize with the actions of the CEO. In addition, prior service on other boards or board committees may increase the social cohesion between outside directors and the CEO making them less socially independent and thus less willing to challenge management on important strategic initiatives and policies. The empirical evidence suggests that considerations of formal independence in reducing agency costs are incomplete (Wade et al., 1990; Main et al., 1995; Belliveau et al., 1996). Social

considerations (i.e., the social independence of the board) must also be taken into account to better explain the effect of the board on firm outcomes.

Firm leaders can influence the perception of corporate governance at the firm through the director selection process. Research has shown that managers are often able to appoint directors that are less socially independent in an effort to promote their own interests and retain considerable managerial autonomy (Westphal and Zajac, 1995). However, as mentioned previously, an agency logic of corporate governance has become institutionalized wherein certain board structures are viewed as controlling potential agency costs. Consistent with the emphasis on financial economic perspectives on organizations (Fligstein and Shin, 2007; Davis, 2005), the agency logic tends to focus entirely on structural board solutions to the agency problem while overlooking the social aspects of board independence. Therefore, increased media scrutiny provides an opportunity for the decoupling of formal structure and actual practice. In this case, firms may increase the formal independence of the board to satisfy institutional pressures that are conveyed through the media, without actually increasing the social independence of the board. Managers may therefore benefit from increased legitimacy in the external environment while maintaining considerable autonomy and control by appointing board members who are formally independent but not necessarily socially independent. Thus, formal changes in board structure in response to media scrutiny may be largely symbolic gestures.

H1: Unfavorable media coverage will be related to increases in formal board independence without increases in social independence

Symbolic action and subsequent media coverage

Because the agency logic has become institutionalized, the adoption of governance mechanisms that adhere to its prescriptions should be viewed positively by external constituents, including the media. For example, evidence suggests that firms which explain firm policies and actions according to this agency logic tend to engender more favorable responses to those actions (Westphal and Zajac, 1998). As mentioned previously, one aspect of the agency logic is the idea that boards should be made structurally independent by the addition of outside directors and the separation of the CEO and board chair positions, thereby placing the board in a better position to monitor and control top managers. When the board of directors is structurally independent, external constituents will be more likely to assume that the firm has proper governance mechanisms in place, and also that internal board processes are appropriate. Many in the popular press for example, seem to equate good governance with having an independent board structure (Coombes and Watson, 2000; the Corporate Board, 2006). However, while the formal independence of the board is an easily observable characteristic that signals quality corporate governance practices, it does not ensure the effectiveness of actual board practices. In fact studies have often failed to show significant effects of formal board independence on important firm outcomes (Dalton et al., 1998) and there is specific evidence that formal independence does not necessarily predict monitoring and control behavior on boards (Westphal, 1999). At the same time, research suggests that social independence is an important determinant of effective governance practices (Wade et al., 1990; Main et al., 1995). However, social independence is more subtle and not as readily apparent to external observers. The agency logic discussed above tends to focus

almost exclusively on structural solutions to the agency problem while downplaying social factors. The lack of attention to social factors in the agency logic stems from its roots in economics. Economic perspectives on organizational behavior in general and agency theory in particular can be viewed as under-socialized (Granovetter, 1985).

Because information about the social independence of a board is more difficult to obtain, most external constituents will rely on the easily identifiable signal of formal independence to make inferences about the quality of the processes that occur on boards. A structurally independent board will typically be assumed to go through a more rigorous process when determining executive compensation and approving firm strategy. External constituents, observing independent boards which have a high level of structural legitimacy, may assume that such a board will also have higher process legitimacy (Suchman, 1995). The agency logic assumes that structurally independent boards will be able to more effectively control managerial self-interest without accounting for potential variability in the social independence of the board and in the effectiveness of actual board processes. Thus, managers may add formally independent directors or separate the CEO and board chair position largely as a symbolic gesture to gain increased legitimacy. At the same time, CEOs may be able to protect their own interests by adding directors who are not socially independent due to similarities in functional background, demographic characteristics or with whom the CEO has established prior relationships by serving together on other boards (Westphal and Zajac, 1995). It is thus possible for a firm to symbolically increase the structural independence of its board while maintaining or actually decreasing the social independence of the board. When firms make tangible, easily observable changes in policy or structure that appear to conform to

institutionalized norms of proper governance such as increasing the formal independence of the board, such actions should send a powerful message to constituents about the legitimacy of the firm. Changes in board structure are easily observable to external constituents and thus should be even more effective than simple impression management or verbal accounts which have been shown to increase a firm's legitimacy (Elsbach, 1994). Actions may speak louder than words in determining the effectiveness of symbolic actions.

Journalists may be especially likely to be influenced by the symbolic adoption of independent board structures. Because of information asymmetries between management and the media, journalists may be satisfied by the adoption of legitimate governance structures regardless of their substantive effect. In addition, given the fact that most journalists are generalists in their business knowledge (Ludwig, 2002) rather than experts with deep knowledge about corporate governance practices, most journalists will not discern decreases in social independence. Journalists may also be satisfied by formal increases in board independence based on Meyer and Rowan's (1977) "logic of confidence and good faith" which suggests that internal and external constituents typically assume that formal organizational structures are indicative of sound internal practices. According to this logic, at some level, constituents want to assume the best about corporate governance at a given firm and will therefore be satisfied by the adoption of formal structures. This is compounded by the fact that journalists may be slow to report negatively about firms out of fear of losing access to top management. Thus, journalists may be looking for evidence of appropriate governance to avoid having to report negatively about the firm. Even if journalists have doubts about the effectiveness

of formal board structures in reducing agency costs at a firm, if journalists in general fail to raise these doubts publicly, individual journalists will be more likely to continue to endorse these structures. Past research suggests that these patterns of pluralistic ignorance can lead to less effective governance of firms (Westphal and Bednar, 2005) and in this case may contribute to journalists being influenced by symbolic action.

Because boards are situated at the apex of the organization, they play a symbolic role in representing the quality of the overall firm and the firm's management. To the extent that external constituents view the board and the governance practices of a firm in a positive manner, subsequent evaluations of the firm, firm leaders and firm actions should tend to be more positive. In this context, journalists may be less likely to criticize specific policies and actions of a firm when the board is structurally independent.

The agency logic suggests that independent boards reduce agency costs and curb managerialism. Because this logic has become institutionalized, journalists may be less likely to attribute firm policies and actions that could potentially represent an agency problem to lapses in corporate governance when the board is formally independent. Executive pay for example may be used as a device to attract and retain superior managerial talent but high levels of CEO pay can also be a sign that the CEO has control over the board. How journalists perceive and report on executive pay at a firm, may be influenced in part on how strong the governance structures of the firm are perceived to be. When the board is structurally independent, journalists may be more likely to assume that the board has not been co-opted by management and that high pay reflects the need to attract and retain managerial talent rather than as a sign of an entrenched CEO with

power over the board. Thus, reports of executive compensation may have a less negative tone when the board is structurally independent.

Increases in diversification may also represent an ambiguous cue to external parties. On the one hand, diversifying acquisitions can represent a vehicle for growth of the firm and can generate profits. On the other hand, managerialist perspectives suggest that diversifying acquisitions are often used by entrenched CEOs to increase their own job security (Schleifer and Vishny, 1986). Such increases in diversification are also seen as evidence of empire building stemming from managerial hubris rather than a desire to maximize value (Hayward and Hambrick, 1997). When the board is structurally independent, external parties such as the press will be more likely to assume that the board went through appropriate processes in ratifying strategic decisions such as increases in diversification and will thus be less likely to interpret increases in diversification as an agency problem. Thus, the structural independence of the board may influence the tone of media coverage following increases in diversification.

Finally, poor performance may be the result of numerous factors including mismanagement of company resources that may be within the control of management and the board. On the other hand, poor performance may also be the result of uncontrollable external factors. Whether journalists attribute poor performance to internal or external factors may depend to some extent on the perceived strength of the firm's governance practices. A board that is structurally independent appears to outside constituents to be more likely to challenge management and decrease the likelihood of costly mistakes stemming from CEO ineptitude. Thus, poor performance should be more likely to be

attributed to external factors rather than poor management of the firm when the board is structurally independent.

In effect, because of the taken for granted status of independent boards in reducing agency costs, the adoption of legitimate governance practices may produce a type of halo effect that shapes journalists' perception of other firm actions and policies. Given the potential ambiguity of firm actions and policies, increases in structural independence should represent a salient signal to the media that the firm is taking action to minimize agency costs and to promote effective governance practices at the firm. Perceptions of effective governance at the firm will lead to more favorable evaluations of the firm as reflected by more favorable reporting. Thus, we would expect that the overall level of negative press would decrease and positive press would increase following increases in structural board independence. In addition, firm actions that are potentially ambiguous in their interpretation such as increases in pay and diversification and decreases in performance, should be evaluated more favorably when the firm has increased the formal independence of the board.

H2: Increases in structural board independence will be associated with increases in the favorability of subsequent press even when not accompanied by increases in social independence

H2a: Increases in structural board independence will dampen the negative effect of increases in CEO pay on the favorability of subsequent press

H2b: Increases in structural board independence will dampen the effect of increases in diversification on the favorability of subsequent press

H2c: Increases in structural board independence will dampen the effect of decreases in performance on the favorability of subsequent press

The prior hypotheses suggest that firms may garner more positive media coverage by adopting governance structures that conform to institutionalized norms. In addition to these structural changes, external parties, including the media may be influenced by the prestige of the individuals who are added to the board. Research demonstrates that characteristics of corporate leaders can serve as powerful signals to external constituents, including potential partners and investors, about the quality of the focal firm and its management team (Higgins and Gulati, 2003; 2006). Association with prestigious actors can increase external evaluations of a focal firm especially in uncertain environments (Podolny, 2001; Stuart et al., 1999). Thus, symbolic action may be more effective when it demonstrates not only conformity to prevailing norms but also when it signals prestige or high status. In the current context, firms can signal competence and prestige through the addition of directors who have other prestigious affiliations.

Research has also demonstrated that individuals have a tendency to attribute firm outcomes to corporate leaders, despite the fact that external factors often play a large role in determining outcomes (Meindl et al., 1985; Hayward et al., 2004). In this case, adding high status board members may trigger this “romance of leadership” tendency to attribute firm outcomes to individuals. A prestigious director that has been successful in the past,

or is affiliated with a prestigious institution, is more likely to be perceived by external observers to add value to the focal firm, even if such directors have little effect on overall firm performance, the reduction of agency costs or other important firm outcomes.

Individual outside directors are likely to have minimal influence on the overall performance of the firm given their status as part time workers and potential motivations to support the CEO that appointed them. Yet, due to the tendency to romanticize leaders, the addition of prestigious directors may carry symbolic value by enhancing the perception of external constituents about their potential effect on the firm.

Ironically, in some cases, bringing on a prestigious director may actually increase the reluctance of the board to engage in control over the CEO. For example, by bringing high status CEOs of other firms to serve as outside directors on a board, focal firms may signal the competence of the board thus leading to more favorable reporting in the press of specific firm policies and strategies. Yet, fellow CEOs who serve as directors may be reluctant to curb policies favoring the focal CEO due to generalized norms of reciprocity among corporate leaders (Westphal and Zajac, 1997). For example, prestigious CEOs who are brought on board as outside directors may have a sense of obligation to protect the interests of fellow members of the corporate elite and not institute policies that would harm the interests of the focal CEOs. Thus, by signaling board competence to external constituents through the appointment of high status CEOs as directors, focal CEOs may be able to garner increased positive press coverage about them and their firms, while at the same time, maintaining or even reducing the social independence of the board. In summary, the preceding argument suggests that increasing the prestige of the outsiders on

the board should enhance the effect of symbolic governance changes on the favorability of subsequent press.

H3: The effect of increases in structural independence on the favorability of subsequent press will be greater when accompanied by increases in the prestige of the board

Persistence in the Press

To the extent that firm leaders can influence their own portrayal in the press by engaging in symbolic action, these effects may persist for some time due to a tendency among journalists to show consistency in their reporting. Prior research suggests that the press may be ineffective at reducing agency costs, in part because of its tendency to attribute positive firm outcomes to firm leaders (Meindl et al., 1985) and to be somewhat inertial in their coverage of firms and leaders (Chen and Meindl, 1991). Initial positive coverage attributed to firm leaders may bias future reporting of that individual and their firm. Chen and Meindl (1991) for example, found that the media initially attributed the success of People Express to its founder Donald Burr. Even in the face of declining performance, the press was slow to change their initial view of Burr and continued to portray him in a very positive light. The authors argue that this inertial tendency of the press stems from a need to achieve consistency in reporting. Consistency is often equated with credibility and so initial favorable coverage of a CEO or firm may act as a buffer against future negative coverage in response to poor performance. Thus, the press may suffer from its own type of persistence wherein it is loathe admitting that an individual or an organization that they have built up in the past may be the cause of subsequent poor performance. Journalists that have initially praised a CEO may be more

likely to attribute subsequent poor performance to external factors that are not the direct result of poor decisions made by the CEO. While declines in performance should typically result in more negative press coverage, this relationship should be attenuated to the extent that a firm or firm leader has received positive coverage in the past. Thus, to the extent that firm leaders can enhance their coverage in the press by engaging in symbolic action, they may be able to insulate themselves from future criticism.

H4: Prior positive press will attenuate the relationship between performance declines and the level of negative press about the firm

While the prior hypotheses suggest that executives may engage in symbolic action to build their own reputations in the media, this becomes especially important if one can show that the media actually do have a significant effect on firms and firm action. The following hypotheses suggest that the favorability of media coverage may affect a range of firm outcomes. In general, negative media coverage can prompt change by threatening reputational damage, thus reducing agency costs by motivating leaders to act in the interest of shareholders. Positive media coverage may enhance a firm and leader's reputation and in some cases could actually promote management interests by acting as a reinforcing mechanism of past behavior and buffering leaders from demands for change. To the extent that managers are successful in using symbolic action to increase the favorability of press reporting, the press should be less effective in enacting its monitoring role.

The effect of the press on strategic change

Financial economists have suggested that the press may serve as a mechanism to reduce information asymmetry between management and shareholders, affect the reputations of corporate leaders, and potentially serve as a strong impetus for change in organizations (Dyck and Zingales, 2002). Negative press coverage about a firm can serve as a powerful signal that current strategies and policies are inadequate and that change is needed. As mentioned, negative information is typically over weighted in impression formation and decision making and thus should act as a trigger prompting action on the part of firms (Fiske, 1980; Yzerbyt and Levens, 1991). Because the information disseminated through the press is widely available to a range of constituents including employees, analysts, shareholders, peers, and even family members, the potential reputational costs to a manager and firm that receive bad press are substantial.

By disseminating negative press, the media can act as a shaming mechanism that can cause embarrassment to corporate leaders (Skeel, 2001) and hurt their reputations in the larger business community. Negative press could also be a source of embarrassment beyond the business community, for example with a top manager's friends and family. Such public displays of disapproval can be a strong motivator for change (Dyck and Zingales, 2002). Thus, managers who receive bad press are not likely to be complacent nor satisfied with the current state of the firm and may engage in significant changes to appease the media and demonstrate that action is being taken to correct any problems. Because action is often noticed and even glorified in the press (Basdeo et al., 2006) CEOs may be more likely to take action in response to negative press coverage to protect their own reputations. In addition, media coverage may make performance shortfalls relative

to aspiration levels more salient to top management, increasing the likelihood of strategic change in response to poor performance (Greve, 1998).

In addition, due to the accessibility of media reports, negative press is likely to decrease support among key organizational constituents that are needed to implement current strategies. Successful strategies need considerable buy in from both internal and external constituents. Negative press is likely to erode this support from employees and other key constituents, thus increasing the likelihood that leaders will formulate new strategies that can garner needed support. While the press is unlikely to uncover new information that prompts changes in strategy, the negative tenor of media coverage may facilitate the erosion of support for a certain strategies and policies, suggesting the need for corporate leaders to change course.

While negative press may spur strategic change, CEOs that receive positive press may be especially likely to continue with the strategies that garnered the positive press in the first place (Hayward et al., 2004). Research in strategic management shows that firm leaders are prone to persist with those strategies that have proven successful in the past (Milliken and Lant, 1991). Leaders often continue with what has worked in the past even when evidence suggests that a current course of action is failing (Staw, 1981). When business leaders become aware of positive press regarding the firm or about their own leadership, it serves as a reinforcing mechanism which suggests that the firm is currently acting in an appropriate manner. The press acts as a powerful feedback mechanism to corporate leaders about the approval of external stakeholders for current firm policies and may even lead to increased levels of managerial hubris. Positive feedback from the media may thus increase executive resolve to continue with the current

strategy, and may even trigger escalation mechanisms to the current course of action (Staw, 1981). Positive press coverage may increase the confidence and satisfaction that top leaders have in the current strategy and reduce the perceived need to obtain information about alternative courses of action (Audia et al., 2000). Positive press would allow executives to justify their current course of action to other internal and external constituents, thus alleviating pressures to engage in strategic change. Furthermore, positive press may contribute to executives' framing of current performance. To the extent that executives perceive current performance to be acceptable relative to other firms, they may be less likely to enact change (Greve, 1998). In sum, while negative press should act as a triggering mechanism to increase the likelihood of change, positive press is likely to reinforce the tendency to persist with current strategies.

H5: The favorability of press coverage will be associated with a decreased likelihood of strategic change

H5a: The favorability of press coverage will decrease the effect of poor performance on strategic change

The favorability of press coverage has reputation effects not only for the CEO but also for board members. Board members of poorly performing firms that are facing intense media scrutiny should prompt CEOs to engage in strategic change in an effort to repair or maintain their own reputations. However, to the extent that the board is not

socially independent, board members may be somewhat conflicted in their motivations to prompt change between protecting their own reputations and loyalty or perceived social obligations to the CEO and CEO initiatives. When boards lack social independence, directors may be more likely to attribute poor performance to external factors rather than to the current strategy and policies of the CEO. Socially independent board members on the other hand should be able to critically assess current strategies and policies and force changes in strategy in response to decreased constituent support. Thus, negative press alone may not be sufficient to prompt change but when coupled with a socially independent board, negative press may have a significant effect on change. In this sense, the press may serve a complementary function with other governance mechanisms such as the board. Negative press may be the triggering mechanism that allows a socially independent board to act by prompting strategic change.

On the other hand, the effect of positive press on the likelihood of strategic persistence should be greatest when weak governance mechanisms fail to provide checks on the CEO, thus allowing him or her to persist with strategies even as performance declines. For example, such persistence in response to poor performance should be especially likely when the board is not socially independent and thus may be more sympathetic toward CEO actions and more reluctant to prompt change. A socially independent board should be well positioned to counteract the tendency of executives to “believe their own press” and become wedded to strategies that have worked in the past but that may not be currently viable. In addition, a socially independent board may help executives to overcome the tendency to make biased attributions of firm performance which attribute poor performance to external factors rather than to problems with

management or the current strategy (Hayward et al., 2004). Socially independent boards should have less trouble engaging in frank dialogue concerning current strategies and be more open to new possibilities. Thus, when the board is socially independent, positive press is less likely to trigger the tendency to persist in the face of poor performance. In summary, social independence of the board will amplify the effect of negative press on strategic change while attenuating the buffering effect of positive press. In relation to the previous section, by engaging in symbolic action and decreasing the social independence of the board, firm leaders may be able to not only garner more positive press for themselves, but also lessen the effects of negative press on change while increasing the effect of positive press on persistence. Thus:

H5b: The social independence of the board will increase the effect of negative press on the likelihood of strategic change

H5c: The social independence of the board will reduce the effect of positive press on the likelihood of strategic persistence

Effects of the press on CEO outcomes

The following section argues that in addition to affecting firm level outcomes such as strategic change, the nature of press coverage received by leaders and firms will have a significant effect on outcomes directly relevant to the CEO. To the extent that leaders can influence their reputations in the media through symbolic action, they may be able to secure personal benefits that increase job security but that may not necessarily be in the best interests of shareholders.

CEO Dismissal

Research on the media and corporate governance has typically viewed the press as an information intermediary that reduces information asymmetry between management and shareholders by disseminating information to a vast audience. Because of the wide audience that the media can reach, it may also be instrumental in shaping and broadcasting a leader's reputation. While the media are unlikely to reveal completely new information to the board, the media may influence decisions regarding CEO turnover by sending powerful signals to the board about how the CEO is perceived by external parties.

The board of directors has the responsibility to hire, evaluate, compensate, and even fire the CEO. Because of the multitude of internal and external factors that affect firm performance, there is potential ambiguity in the evaluation of the CEO. Therefore, boards may be influenced by the external evaluations of other constituents such as securities analysts (Puffer and Weintrop, 1991) or the media. External constituents such as analysts and the media create expectations for the CEO that could then be used by the board in evaluations of the CEO. More generally, the press can shape the way a firm and its leaders are perceived by external audiences. Once negative press is broadcast in the media, the board may be pressured to act. In a very public example of how the press can pressure firms into action, Dick Grasso, CEO of the NYSE, came under intense scrutiny for his pay package and was eventually forced to resign (Gasparino et al., 2003). In that case, the media scrutiny led to increased pressure from investors and other constituents until formal action was taken by the board. Because of the potential harm that bad press can have on firm reputation and future firm performance, the media can exert significant

influence on the board to make changes in current firm leadership. When a company or CEO comes under attack in the media, it is possible that the board will be more likely to dismiss the CEO in order to protect their own reputations and show external constituents that action is being taken to remedy the problem. In this sense, negative media attention may lead to scapegoating of the CEO by the board (Boeker, 1992).

While negative press may increase the likelihood of turnover, CEOs that receive positive press may be insulated from dismissal. Even when performance decreases or other events occur that may justify CEO dismissal, prior and current positive press about the CEO may make the board more likely to attribute any negative events to external factors rather than to decisions made by the CEO. Since press coverage of firm leaders has been shown to be somewhat inertial (Chen and Meindl, 1991), and given the ambiguity of the causes of performance outcomes, positive press may continue even after negative events occur. To the extent that leaders can increase the favorability of press coverage by engaging in symbolic action, they may be able to ultimately reduce the likelihood of dismissal. Thus, in the context of poor performance the nature of the press coverage received by a leader should influence the likelihood that the CEO will be dismissed.

H6: The favorability of press coverage will be associated with a decreased likelihood of CEO dismissal

H6a: The favorability of press coverage will decrease the effect of poor performance on the likelihood of dismissal

Boards that fail to act in the face of poor performance may experience damaged reputations in the labor market (Fama and Jensen, 1983). Because negative press has reputation effects for board members, directors of poorly performing firms that are confronted with media scrutiny are likely to dismiss the CEO in an effort to salvage their own reputations. However, to the extent that the board is not socially independent, board members may be somewhat conflicted in their motivations to prompt change. Directors that lack social independence may have a sense of loyalty or a perceived social obligation to the CEO and thus may be more reluctant to dismiss the CEO. This conflict is especially likely since the causes of poor performance are often ambiguous and can be readily attributed to uncontrollable external factors rather than to the actions of the CEO. Thus, these social factors are likely to counteract to some degree the reputational concerns of directors in their decision to dismiss or retain the current CEO in response to poor performance. CEOs that are socially independent should be less influenced by similarity-attraction biases, or judgments based on prior encounters with the CEO. Thus, socially independent directors may be more likely to act when influenced by the negative perceptions of external parties such as the press. Negative press may serve as a motivator for a socially independent board to act by dismissing the CEO.

The effect of positive press may also be affected by the social independence of the board. When boards are not socially independent, they should be more likely to sympathize with CEO initiatives. Research on similarity attraction bias suggests that individuals who share salient characteristics are more likely to evaluate each other favorably (Byrne, Clore and Worchel, 1966; Wayne and Liden, 1995). In the case of the

board, similarity on demographic characteristics or increased familiarity with the CEO through prior service together may increase that director's positive assessment of the CEO. Positive media coverage should act as a reinforcing mechanism that confirms previously held positive beliefs about the CEO and exacerbates the tendency for directors lacking social independence to positively evaluate the CEO. Thus, while social independence may increase the effects of negative press on the likelihood of dismissal, it may attenuate the effect of positive press on a decreased likelihood of dismissal.

Previously, I argued that leaders can secure favorable media coverage by engaging in symbolic action, wherein they adopt formal structures that appear to be independent yet fail to increase the social independence of the board. By decreasing the social independence of the board, leaders may also negate the influence of negative press on the likelihood of dismissal. In summary:

H6b: The social independence of the board will increase the effect of negative press on the likelihood of dismissal

H6c: The social independence of the board will attenuate the negative effect of positive press on the likelihood of dismissal

CEO Compensation

High CEO pay has increasingly become a popular topic in the business press. Boards and firms are regularly condemned by the press for offering enormous compensation packages to executives, sometimes in the face of mediocre or poor performance. In the financial economics literature, researchers have begun to explore the

effects of the press on CEO pay and initial studies have shown mixed results about the effectiveness of the press in restraining executive compensation (Core et al., 2007; Johnson et al., 1997). Negative press about the CEO or regarding the CEO's compensation is one way that the press can expose agency problems at the firm. Excessive compensation can be a signal of management control over the board or managerial greed. By exposing very high compensation, the press may damage the reputation of directors as expert monitors. In response, directors may be more likely to decrease or at least reduce subsequent increases in CEO compensation to avoid future damaging press. In addition, negative press may also encourage boards to increase the percentage of total compensation that is contingent on performance. Negative press may also reduce the CEO's opportunities on the job market, decreasing demand for their services, and thus lessen the need to pay more in order to retain the CEO.

On the other hand, positive press coverage of CEOs and firms may enhance their reputation as expert managers. Given the wide circulation of the business press, this information becomes readily available to other firms that may be in the market for top executive talent. In other words, positive press may increase demand for the services of a given CEO, thus increasing the amount of money the board is willing to pay in order to keep them. The board is more likely to view high compensation in such contexts from a human resource logic (Zajac and Westphal, 1995) where pay is used to attract and retain the best quality manager rather than as a sign of agency problems. When firm leaders receive positive press coverage, firm actions and firm outcomes are more likely to be attributed to the CEO (Hayward et al., 2004) which may make the board more likely to reward the CEO with increases in compensation. The romance of leadership perspective

suggests that constituents tend to overweight the contribution of leaders to important firm outcomes including performance (Meindl et al., 1985; Chen and Meindl, 1991). Some have argued that board members generally tend to attribute firm outcomes to leaders (Wade et al., 2006; Crystal 1991) and positive press may reinforce this “romance of leadership” tendency. Khurana (2002) has said that when evaluating a CEO, stakeholders often overweight external signals of reputation suggesting that the board may overestimate the accuracy of positive press regarding the CEO. Positive press may also increase the likelihood of a CEO being viewed as a star performer that is critical to future success. Prior research suggests that individuals identified as star performers earn compensation premiums in excess of what their individual contribution would warrant (Frank and Cook, 1995). Thus, by building up the reputation of a CEO, the media may increase the likelihood of subsequent increases in compensation. In addition, boards may respond to positive press with increases in the proportion of cash (rather than performance based) compensation as a way to retain top management talent.

H7: The favorability of press coverage will be associated with: (1) subsequent increases in compensation; and (2) decreases in the proportion of contingent compensation

In addition to affecting traditional compensation, the media may have an effect on perquisites received by top managers. Perquisites are personal benefits to a top manager that are often viewed as being contrary to shareholder interest and reflecting weak governance (Jensen and Meckling, 1976). Perquisites are viewed negatively because they often involve the use of company assets for the personal convenience of

management as in the case of granting use of a company plane. Recent work on perquisites has shown that they may be destructive to shareholder value (Yermack, 2006). Following the dissemination of negative press, we might expect a socially independent board to reduce subsequent perks to the CEO. Negative press should make potential agency problems more salient for directors, causing them to limit actions, such as the granting of perquisites that can easily be viewed as contrary to shareholder interest. Reducing perks may be a simple way for the board to signal that agency costs are being controlled.

On the other hand, positive press about a CEO could act as a buffer for management, increasing the likelihood that the board will attribute success to the CEO and feel that the CEO is deserving of perquisites. Positive media coverage may reflect the perception of the CEO in the broader external environment and the board may feel that perks are necessary in order to retain the CEO or as a reward for good performance. In summary, the nature of CEO press coverage may affect the extent to which the board will or will not award perquisites to top managers.

H8: The favorability of press coverage will increase the extent to which CEOs receive perks

Board Appointments

Agency theory suggests that directors have an incentive to adequately monitor firms because by so doing, they may establish a reputation as an expert in the market for directors (Fama and Jensen, 1983) which should facilitate future employment

opportunities. Consistent with this argument, prior research suggests that actions which damage a firm's reputation can affect a firm's ability to attract network partners and partners of high status (Sullivan et al., 2007). Given the importance of the media in establishing firm and CEO reputation, negative press coverage of a firm or of a CEO should detract from that CEO's reputation in the market for directors thus decreasing their opportunities to receive subsequent board appointments. In a sense, negative media coverage may be a mechanism whereby a director is stigmatized such that they become less attractive as a potential board candidate.

On the other hand, positive coverage of the CEO will be widely available to other firms and will enhance the CEO's reputation and increase the demand for the CEO's services as an outside director. Even in the face of poor performance, CEOs that receive positive (or at least less negative) press may suffer less of a reputational cost in the director labor market. Positive press would allow a CEO to justify poor performance or make others more likely to attribute poor performance to external or uncontrollable factors. Thus, we would expect positive press to increase the likelihood of subsequent board appointments.

H9: The favorability of press coverage will increase the likelihood of subsequent board appointments for a focal firm's CEO

In summary, the preceding framework suggests that the media can play an important role in the corporate governance of firms yet leaders may engage in symbolic action to reduce the effect of the press on a range of important outcomes. Figure 1 in the

appendix portrays a visual representation of the theoretical model. The initial hypothesis suggests that negative press may prompt changes in corporate governance practices that are generally viewed as legitimate. However, while the press acts as a vehicle to enforce institutional norms of acceptable governance structures, firms may respond to this external pressure in a largely symbolic manner. In the next hypotheses, I further argue that by making symbolic changes in the governance of their firms, leaders may enhance the way that they, and the policies and actions of their firms, are portrayed subsequently in the press. Thus, the study explores the susceptibility of the press to symbolic action. The final hypotheses are aimed to show that this symbolic action may have important effects since press coverage has effects on a range of outcomes relevant to the firm and the individual CEO. Taken together, these hypotheses suggest that managers can engage in symbolic action to increase the favorability of the subsequent coverage of themselves and their firms, and that this favorable coverage may actually perpetuate rather than deter certain agency costs.

Chapter 4: Methods

Sample and Data collection

The sample frame for this study consists of publicly traded U.S. companies in the S&P 500 in the year 2001 that were listed in the EXECOMP and IRRC databases. This sampling frame includes large publicly traded companies that have significant influence over the overall U.S. economy and also ensures sufficient data availability. In addition, these firms are likely to be reported on extensively in the press, one of the main issues studied in this dissertation. A random sample of 250 firms was chosen from this sampling frame and then tracked from 2001 to 2005.¹ Data on media coverage was obtained by extracting articles from the FACTIVA database and then processing those articles using computer aided content analysis. Data on CEO compensation and dismissal was obtained from the EXECOMP database while information on strategic change, performance, and diversification was obtained from COMPUSTAT. Governance variables, including the formal and social independence of the board were obtained from the Board Analyst and IRRC databases, as well as Capital IQ. Data from these various sources were combined to form a master database used in this study.

¹ Prior to collecting the sample, I conducted power analysis using PASS software. Power analysis helps researchers to know what sample size is appropriate in order to detect effects of various sizes. I used the multiple regression function in PASS which allows one to estimate an appropriate sample size based on assumptions about the number of variables, effect sizes, and explanatory power of the control variables. I ran several power analyses using different assumptions. For example, a sample size of 250 achieves a power level of over 80% assuming that the increase in R^2 attributed to one independent variable is .02 and that the standard alpha of .05 is used. This particular example assumes 10 control variables with an explanatory power of .40. Based on several analyses it seems that a sample of 250 firms will give me sufficient power to detect fairly small effects in my study and balance the need for a large sample with the demands of data collection.

Procedure for coding media coverage

The coding of media coverage involved identifying specific media content about the sample firms and rating the favorability of the content using computer aided content analysis. Media coverage was extracted from 4 leading business publications including the Wall Street Journal, Business Week, Forbes and Fortune as well as two leading daily papers including the New York Times and the Washington Post. These publications are widely circulated and are often looked to as opinion leaders. In other words, the reporting done by these leading outlets should greatly influence the coverage of smaller, less prestigious outlets. Thus, a sampling of these publications should be representative of the overall manner in which a firm is portrayed in the press. To obtain media content about the sample firms, initial searches were conducted on Factiva to retrieve all articles that were written about a given firm in these outlets over the specified time period. I used the company search feature in Factiva which allows one to look up a particular company and then extract all articles about that company from the database. To ensure that only significant content relating to a firm was included, I only downloaded those articles mentioning the firm in the title or lead paragraph. Articles under 50 words were not included in the search. Some articles make mention a particular firm in the lead paragraph but are not written specifically about that company. Factiva allowed me to track how many firms were mentioned in a particular article. By manually observing many of the articles, I found that articles which mentioned a large number of different companies were often not written about the focal firm. To avoid including articles that were not primarily about the focal company, only articles that mentioned less than 5 firms were included in the sample. 42,330 total articles about the sample companies were

downloaded from FACTIVA into XML format. FACTIVA includes information about each article including the publication, the date written, the journalist, the content area, the firm and industry about which the firm is written etc. The XML format allowed me to extract the relevant content and additional information about each article. A computer program was written which exported the articles to a spreadsheet. The actual article content from the spreadsheet was then converted into separate text files so that it could be processed by the computer aided text analysis software.

To measure the favorability of media content, I used the LIWC (Language Inquiry Word Count) program (Pennebaker et al, 2001). LIWC was suggested by Wiesenfeld et al (2007) as a method for rating the favorability of press reports about CEOs that have been stigmatized. Through personal communication with Jamie Pennebaker, the creator of LIWC, and after investigating several other options including the General Inquirer and Diction 5.0, I determined that the program would be acceptable for the questions of interest in this study. LIWC has the capability to process large numbers of articles quickly and produce measures of the favorability of selected texts. The LIWC program uses dictionaries of words that correspond with a variety of constructs. LIWC counts the number of words from the dictionary that appear in a particular text and then reports the percentage of words within the text that are found in that dictionary. These categories have been validated across a variety of different types of text using human coders. All of the articles collected from FACTIVA were analyzed using the Positive and Negative emotion dictionaries in the LIWC program. These categories are used to measure the positive and negative valence of a particular article. For this study, to the extent that a firm is associated with press that contains negative valence words, we can infer that this

press will be damaging to the firm's reputation. Given evidence that positive and negative valence are separate constructs rather than opposite ends of a continuum, measures for both positive and negative valence were constructed. Past research has often classified articles as either positive negative or neutral (Deephhouse, 2000; Pollack and Rindova, 2003). However, articles regularly contain both positive and negative statements. Past research assumes that an article high in positive and negative content would be coded as neutral. By simultaneously capturing positive and negative content, I am able to assess the independent effects of positive and negative coverage and capture a more fine grained measure of favorability. To assess the face validity of the positive and negative coverage in my sample, I read numerous articles which had high negative and high positive scores and found that the LIWC program consistently matched my own assessment of the article valence. To check for robustness and to ensure that results were not dependent on the content analysis program used, I also downloaded the dictionaries of positive and negative words associated with the General Inquirer content analysis program. Recent work in Finance has used the General Inquirer to measure the tone of business news coverage and has shown significant effects of media favorability on market reactions (Tetlock, 2007). The results using the General Inquirer were generally less significant than those using LIWC, potentially due to the fact that the GI dictionaries include many more words and therefore capture more noise in the positive and negative valence construct.

Two categories of media coverage were used for the analyses. The first category included media coverage specifically about the CEO. These articles were collected by conducting a Factiva keyword search that included the full name of the CEO and the

focal company. FACTIVA includes a search option, “key search terms in context”, which extracts the paragraphs surrounding a mention of a search term. This option was used to separate media coverage which directly referenced the CEO. The second category of media coverage included articles that were more specifically related to issues of corporate governance at the firm. FACTIVA has developed a system known as “intelligent indexing” which classifies all articles into content categories. One of the categories in the intelligent indexing system is called “Managerial Issues” which is described as containing articles related to Corporate Governance, Executive Pay, and Management Philosophy. Press coverage in this category is most likely to be affected by changes in board structure and the other variables examined in this study. The final sample includes 15,612 articles in the CEO sample and 5,074 articles in the Management Issues sample. In the analyses, I present results for both categories of media coverage.

Measures

Positive Media Coverage was obtained by taking the LIWC scores described above from each article for the positive valence category and aggregating them to the firm level for each year. *Negative media coverage* was measured in the same way using the negative valence dictionary. Positive and negative media coverage was obtained for both the CEO and managerial issues sub-samples of coverage.

Changes in the formal independence of the board were measured in two ways. First, *change in the number of independent directors* was measured by subtracting the number of independent directors at time t-1 from the number of independent directors at time t. To qualify as an independent director in this sample, an individual must not be employed by the focal firm. In addition, only directors that were classified as non-

affiliated directors were included (Brickley et al., 1994; Anderson and Reeb, 2004).

Non-affiliated directors include those that have no personal or business ties to the firm.

The second measure of change in formal board independence was *CEO board chair separation* which was coded as one if the firm separated the positions of CEO and board chair in a given year.

Social Board independence deals with factors that could affect the ability of outside directors to impartially evaluate and monitor top management. Prior social ties and demographic similarity are two components of this construct. Prior social ties between outside directors and the CEO were measured by the number of *shared directorships*. To obtain this measure I used the IRRC database to collect data about how many additional boards a director had jointly served on with the current CEO. Serving jointly on a board, may increase the social cohesion between a director and the CEO, thus decreasing the likelihood that directors will challenge CEO preferences in decision making. I measured this variable as the proportion of CEO-director dyads in which the CEO had served on a separate board with the director since 1997, the initial year of the IRRC database.

Second, I measured social independence by examining the similarity between a focal CEO and outside directors on a range of demographic characteristics. Prior research suggests that similarity between the CEO and outside directors may compromise the board's social independence and increase the CEO's potential influence over the board (Westphal and Zajac, 1995). Similarity attraction bias can increase social cohesion between the CEO and board members who share salient characteristics including functional background, industry background, age, and educational affiliation. This

resulting similarity attraction bias is thought to increase the likelihood that directors will support CEO initiatives and decisions (Hitt and Tyler, 1991; Porac et al., 1995; Beyer et al., 1997; for reviews, see Westphal and Milton, 2000; McDonald and Westphal, 2003). Research shows that similarity on a range of demographic characteristics is associated with higher CEO compensation and the appointment of supportive directors (Westphal and Zajac, 1995; Belliveau et al., 1996; Carpenter and Wade, 2002). Consistent with prior work, in this study, I collected demographic information about four characteristics of CEOs and directors including functional background, industry background, educational affiliation and age.

Several studies have suggested that functional background represents a top manager's expertise and perspective on strategic issues (Dearborn and Simon, 1958; Waller et al., 1995). Executives that share a common functional background may have a common schema with which they view strategic decision making and may therefore diagnose problems in similar ways and offer similar solutions. Outside directors who share a common functional background with the CEO may therefore be more likely to approve of that CEO's strategic initiatives, thus decreasing the "social independence" of that director. I used Hambrick and Mason's (1984) classification of functional background which identifies three types of functional backgrounds including throughput, output, and peripheral. Output backgrounds include experience in positions of marketing and sales. Throughput backgrounds include positions in operations, research and development, and engineering. Peripheral functions include accounting, finance and law backgrounds, which are less directly related to the core activities of a firm. Past research has shown that general management is another important functional background category

(Krishnan, Miller, and Judge, 1997). General management was coded as the primary background for those that had spent the majority of their careers in general management roles rather than in more specific functional backgrounds. Director biographies were downloaded from the Capital IQ database and then coders were trained to identify the functional background of each director. Coders were trained to determine the functional background where an individual had spent the majority of their career. I personally coded 50 directors to develop a coding scheme based on prior work that was subsequently used in training the coders. Coders were trained until they reached over 80% agreement with my own coding. Subsequently, random checks were conducted to ensure that coding was conducted in a reliable manner. Coders marked those directors that were ambiguous so that we could resolve any potential differences of opinion.

Similarity in industry background could also influence the degree to which executives view strategic issues in a similar fashion. Within industries, certain industry “recipes” become taken for granted among managers and shape executives’ view of the world (Huff, 1982; Hambrick et al., 1993; Geletkanycz and Hambrick, 1997). To code industry background, I used the classification used by Westphal and Milton (2000). I created a dichotomous variable coded as one if a focal director had prior management experience at another firm in the same industry as the CEO within the last five years. Industries were classified according to their two digit SIC code.

Empirical evidence suggests that educational backgrounds of top managers may influence their underlying attitudes and expertise and can affect a variety of firm outcomes including strategic change, innovation, organizational structure, and evaluation of acquisition candidates (Bantel and Jackson, 1989; Wiersema and Bantel, 1992;

Hambrick and Mason, 1984; Hitt and Tyler, 1991). The possession of an advanced degree in business management can create similarity among those with the credential in beliefs about strategic issues. In addition, there is evidence that affiliation with prestigious educational institutions can provide a salient basis for group identification and in-group/out-group categorization (Tsui et al., 1992; Westphal and Milton, 2000). An Ivy League education is argued to be a salient indicator of upper-class status among corporate elites (Domhoff, 1967; Westphal and Milton, 2000). Such an educational background is often associated with a range of both positive and negative stereotypes which can become the basis for in-group/out-group characterizations. Thus, directors who share a similar educational background as the CEO may be more likely to think similarly about strategic issues and sympathize with CEO initiatives. To measure educational similarity, I coded two dummy variables. The first was coded as one if the director and the CEO both possessed an advanced business degree. The second was coded as one if the director and CEO both possessed an Ivy League education.

Age has also been shown to be a salient characteristic that may affect executive's beliefs and attitudes. For example, some scholars have suggested that age may affect executives' attitude toward risk, affecting how they evaluate strategic decisions such as potential acquisition opportunities (Hitt and Tyler, 1991). Further, O'Reilly et al. (1989) suggest that CEOs and directors of similar age share a host of work and non-work related experience that may increase the extent to which they share beliefs and attitudes. Thus, similarity in age may serve as a mechanism to decrease the social independence of the board. Director age was available in the IRRC database.

To assess the level of social independence between the CEO and the board in a given year, I created a variable using a variation of Blau's heterogeneity index (1977) defined as $(P_i)^2$ where P_i is equal to the number of CEO board member dyads sharing the i th category. Thus, functional background similarity is equal to the squared number of CEO-director dyads who share the same functional background. A similar approach was used to form measures of educational and industry background similarity. For age similarity, I created a measure using a form of the Euclidean distance measure commonly used in organizational demography research and in past studies of social independence of boards (Wagner et al., 1984; Westphal and Zajac, 1995):

$$\left[\sum_{j=1}^n \frac{(S_i - S_j)^2}{n} \right]^{1/2}$$

where S_i is the age of the CEO and S_j is the age of director j and n represents the number of directors. To convert this measure to similarity, it was subtracted from the highest value in the sample. From these absolute measures of similarity, change in CEO-board similarity was constructed for each year by subtracting similarity in the prior year from similarity in the current year.

The individual measures of demographic similarity (age, functional background, industry background and education) were combined with the measure of shared directorships to form a single index of social independence using principal components analysis. Principal components analysis is an appropriate data reduction technique for combining formative (vs. reflective) indicators of a construct. This composite measure of social independence was used in the models reported below. Given that this measure

represents a lack of social independence, I refer to it as *social similarity*. Separate analyses were conducted using the measure of *shared directorships* and interesting differences between analyses using the two measures are discussed in the results section.

Prestige of the board was measured as the number of other boards on which the outside directors of the focal firm sat. In essence, this measures how central the focal firm's directors are in the director network. Change in the prestige of the board was calculated by subtracting the number of boards on which outside directors sat in year t from the same measure in year $t-1$.

Dependent Variables

Strategic change is the extent to which a firm's strategy changes over time (Finkelstein and Hambrick, 1990). Following previous studies (Finkelstein and Hambrick, 1990; Zhang and Rajagopalan, 2003), I relied on a combination of indicators to measure the extent to which a firm's strategy is fixed or changes over time. Data on six dimensions of strategy were collected from the COMPUSTAT database to form the measure of strategic change. The dimensions included (1) advertising intensity (advertising / sales); (2) research and development intensity (R&D / Sales); (3) plant and equipment newness (net P&E / gross P&E); (4) non-production overhead (selling, general, and administrative expenses / sales); (5) inventory levels (inventories / sales); and (6) financial leverage (debt / equity). Large changes to these ratios from one year to the next would represent important changes to a firm's resource allocations and thus change in the underlying strategy of the firm. Lack of change in these measures represents a degree of persistence in the firm's strategy. In calculating the change measure, I first subtracted the value of a

given ratio in the prior year from the current year's value and took the absolute value of that difference. These values were then standardized and the average of the six dimensions was used to represent the magnitude of strategic change.

CEO dismissal was coded as a dummy variable equal to one if the CEO was indicated to have resigned in the given year in the EXECUCOMP database.

CEO compensation consists of the total level and the mix of pay received by the top executive. Data is collected from the Compustat Executive Compensation database. The level of compensation includes CEO salary, short-term bonus, and the value of long-term incentive grants made in a particular year (Crystal, 1984). Long term incentive grants include stock options, which were valued using the Black-Scholes method (Black and Scholes, 1973). Performance shares and restricted stock were valued at the market price on the date of the grant (Crystal, 1984). Consistent with prior research (Gomez-Mejia, 1994; Carpenter and Sanders, 2004; Westphal and Bednar, 2008), *at-risk compensation* was measured as the proportion of total compensation consisting of long-term incentive pay. *CEO perquisites* were measured as "Other Annual Compensation" from the EXECUCOMP database.

The number of outside board appointments is equal to the total number of board seats that a CEO sits on during a given year. Change in board seats is equal to the total number of seats gained or lost in a given year. These data are obtained from the IRRC director's database.

Control Variables

Firm performance is an important control variable as it should greatly influence the nature of press coverage that firms receive as well as other outcome variables.

Performance was measured both as Return on Assets which represents the efficiency of operations at the firm, and by total stock returns which represents a market based measure of performance. Firm performance was adjusted for industry differences by subtracting the industry mean performance. The upper echelons literature suggests that characteristics of corporate executives can affect the nature of strategic decisions at a firm (Hambrick and Mason, 1984). Specifically, CEO tenure has been shown to significantly affect the decisions of firm leaders. *Tenure* was measured as the number of years that the current CEO had been in office with the focal firm. .

Institutional investors can exert pressure on firms to enact changes in corporate governance. One of the mechanisms by which they do so is through proxy contests and engaging in media condemnation of firms that fail to enact changes. Thus, the *level of institutional investment* was included as a control in all models.

I also controlled for *board size* and for prior levels of CEO *compensation*, *board size* and *diversification*. *Firm size*, measured as the log of sales, was a control given that large firms tend to receive more press coverage. I controlled for the total *word count* in the particular category of coverage and also for the total *number of articles* written about a firm in a given year. Finally, I controlled for the firm *industry* at the two digit SIC code level and included dummy variables for each firm *year*.

Analysis

The unit of analysis is the firm year. There are 1250 potential firm years in the dataset which is reduced to 1000 after lagging the independent variables. Missing data reduces the sample further in some models. I used Generalized Estimating Equations to conduct the regression analyses. GEE models are appropriate for longitudinal data and

allow one to specify the nature of the dependent variable while controlling for potential autocorrelation in the data (Liang and Zeger, 1986; Lipsitz *et al.*, 1994). GEE models are an extension of generalized linear models and derive maximum likelihood estimates. For GEE models, one must specify a distribution from which the dependent variable is drawn, a link function, and a correlation structure. For example, models predicting CEO dismissal used a logit link function and a binary distribution for the dependent variable. All models presented had a first-order autoregressive correlation structure. Given the relatively short period of the time series, GEE models were deemed appropriate.

For the models predicting CEO/Chair separation, only those observations in which the CEO also served as board chair were at risk for separation. Thus, I ran a Heckman two-stage procedure which first predicted the likelihood of CEO duality using probit regression followed by a second stage model which included the parameter estimates from the first stage (Heckman and Borjas, 1980). This procedure helps to correct for selection bias that can occur since firms with CEO duality may differ systematically from those that do not.

For models predicting the favorability of media coverage, board appointments, compensation contingency, as well as compensation and perquisite levels, I included the prior year's value of the dependent variable as a control. This helps to control for unobserved heterogeneity and the results can be interpreted as change in the dependent variable. In all models using the prior value of the dependent variable as a control, I ran separate models specifying the lagged dependent variable as an instrument and the results were consistent with those reported below.

Chapter 5: Results

Table 1 displays descriptive statistics and a correlation matrix for all of the variables. Hypothesis one predicted that the favorability of media coverage would be negatively related to increases in the formal independence of the board, measured as change in the number of independent directors and separation of the CEO and board chair position. According to this prediction, negative media coverage should prompt increases in formal independence while positive press should reduce the likelihood of such increases. Table 2 shows GEE regression models predicting change in the number of independent outside directors. The first model in table 2 shows results for the sub-sample of coverage related specifically to the CEO. As shown, negative coverage of the CEO in the previous year, is associated with increases in the number of independent outside directors. Positive coverage was negatively related to changes in independent directors though only marginally so ($p < .10$). When the sub-sample of management issues was used, the results were in the predicted direction but were not significant as shown in model two.

Supplemental analysis was conducted using a negative binomial model which specified the number of independent directors as the dependent variable while controlling for the prior number of independent directors. The results for these models were in the predicted direction but were not statistically significant.

Table 3 shows results predicting the separation of the CEO and board chair positions. Since firms are only at risk of CEO chair separation if the two positions are combined in the previous year, Heckman selection models were used which first predict

the probability of the CEO and board chair positions being combined and then include the parameter estimates from that first equation in the second model which predicts separation. As shown in table 3 and consistent with hypothesis one, negative press was associated with CEO and chair separation for both sub-samples of coverage. Positive press was not significantly related to CEO board chair separation. Table 4 shows results of press coverage predicting changes in the social independence of the board as measured by changes in the composite measure of social similarity. Again, consistent with hypothesis one, while negative press did have a positive association with increases in the formal independence of the board, there was not a significant association with this measure of social independence. In addition to the composite measure of social similarity, I also ran analyses using the number of shared directorships as the dependent variable and found similar results. In summary, the overall pattern of results in table one provides support for the initial hypothesis that negative press coverage would be related to increase in the formal independence of the board but not with changes the social independence of the board.

Hypothesis 2 predicted that increases in the formal independence of the board would be associated with increases in the subsequent favorability of media coverage. The hypothesis would be supported if increases in the number of independent directors were associated with increased positive media coverage and/or decreased negative coverage. As shown in Table 5 increases in the number of independent directors were related to increases in the level of positive press for the management issues sub-sample. As shown in tables 5 and 6, the effect was not significant for the CEO coverage sub-sample or on subsequent negative coverage in either sample. These results provide

partial support for the prediction that increases in formal board independence would increase the favorability of subsequent press by generating more positive coverage. At the same time, increases in the social similarity of the CEO and the board did not have a significant effect on the subsequent level of positive media coverage as shown in tables 5 and 6. In supplemental analysis using the number of shared directorships as the measure of social independence, the results were similar although increases in shared directorships were marginally ($p < .10$) related to increases in negative tenor of management issues coverage. The results generally suggest that changes in the social independence of the board did not significantly affect subsequent press coverage, while changes in formal independence were associated with increases in the positive tenor of coverage related to managerial issues.

In additional models, I ran interactions between changes in the number of independent outside directors and changes in the social similarity of the board. For the composite measure of social independence, the interaction was not statistically significant. For the shared directorships measure, when all control variables were included in the model, the effect of this interaction on subsequent levels of positive press about management issues was negative and significant. For the CEO sub-sample, the effect was negative and significant as well. Thus while the overall results suggest that changes in social independence do not affect subsequent press coverage, for the shared directorship models, the positive relationship between increases in formal independence and positive press is reduced when accompanied by increases in the number of shared directors.

Hypothesis 2a, 2b, and 2c predicted that increases in the formal independence of the board would shape subsequent evaluations of potentially ambiguous actions including increases in executive pay and diversification and decreases in performance. While increases in diversification, poor performance and executive compensation were predicted to increase the likelihood of negative press, these relationships should be diminished to the extent that firms have taken action to increase the formal independence of the board. This hypothesis was tested by interacting changes in the formal independence of the board with changes in pay, diversification and performance respectively. Results show no evidence for a main effect between increases in pay, increases in diversification and subsequent favorability of press coverage. Although the main effect of changes in the number of independent directors on changes in positive coverage of management issues remained significant in all models, none of the interactions were found to be statistically significant.

Hypothesis 3 predicted that changes in the formal independence of the board would be more strongly associated with the subsequent favorability of press coverage to the extent that the prestige of the board also increased. As evidenced by tables 7 and 8, changes in the prestige of the board did not have an effect on subsequent positive or negative media coverage. In addition, the interaction between changes in prestige and changes in formal independence was also statistically insignificant. Thus, hypothesis 3 did not receive support.

Hypothesis 4, shown in table 9, predicted that the press would be inertial in their coverage such that prior positive press would attenuate the relationship between poor performance and negative press. In the first model, poor performance is associated with

more negative media coverage. The next model shows the interaction between prior positive coverage and poor performance. This interaction is significant and positive in the sub-sample of management issues coverage which is contrary to the predicted hypothesis. While the hypothesis predicted that prior positive coverage would attenuate the relationship between poor performance and negative coverage, this interaction suggests that prior positive coverage may actually amplify the effect of poor performance on negative press.

Hypothesis 5 predicted that the favorability of press coverage would be associated with a lower likelihood of strategic change. Table 10 shows that negative press about management issues did appear to prompt strategic change, as negative coverage was associated with higher levels of strategic change. Results for the CEO sub-sample were not significant as seen in table 11. These results provide partial support for hypothesis 5. Hypothesis 5a predicted that the favorability of press coverage would interact with performance, amplifying the effects of performance on strategic change. In the management issues sub-sample (Table 10), there was a significant negative interaction between positive media coverage and performance suggesting that positive press coverage may decrease the likelihood of change when performance is high. This result is consistent with Hypothesis 5a. In the CEO coverage sub-sample (Table 11), the interaction between positive coverage and performance is positive and significant. This result suggests that when performance is high, positive press about a CEO may actually prompt more drastic changes in strategy. Hypotheses 5b and 5c predicted that media coverage would interact with the social independence of the board such that negative press would have a greater effect on change and positive press a weaker effect on

persistence when the board was socially independent. These hypotheses were not supported as the interactions between positive and negative press coverage and the composite measure of social independence were found to be statistically insignificant in both sub-samples of coverage. In addition, when the shared directorships variable was used, the results were also insignificant.

Hypothesis 6 suggested that the favorability of media coverage would affect the likelihood of CEO dismissal. For the management issues sub-sample shown in Table 12, negative coverage was associated with an increased likelihood of dismissal during the following year while positive coverage was negatively and marginally related to dismissal. For the CEO sub-sample shown in Table 13, media coverage was not significantly related to dismissal. Thus, Hypothesis 6 received partial support.

Hypothesis 6a predicted that the favorability of press coverage would amplify the effects of performance on dismissal. The interactions between both positive and negative coverage and performance were insignificant for both sub-samples of coverage. In addition, hypotheses 6b and 6c predicted that media coverage would interact with the social independence of the board in predicting dismissal. Again, the interactions between the media coverage variables and the social independence of the board were found to be statistically insignificant. In the models predicting CEO dismissal, shared directorships were used as the measure of social independence as the models did not reach convergence when the composite measure of social similarity was used.

Hypothesis 7 predicted that media coverage favorability would be related to changes in the total and mix of executive compensation. Tables 14 and 15 show that positive and negative media coverage from both sub-samples were unrelated to the total

amount of compensation granted to a CEO. However, as predicted, positive coverage in the CEO sub-sample was related to decreases in the percentage of at-risk compensation. At the same time, positive coverage of management issues was negatively related to at-risk pay while negative coverage in this sub-sample was associated with increased at-risk pay. So hypothesis 7 was supported with regards to at-risk pay but did not receive support for the total amount of compensation granted.

Hypothesis 8 predicted that media coverage favorability would be associated with increased levels of executive perquisites. Tables 14 and 15 show that the favorability of media coverage was not significantly related to CEO perquisites.

Finally, hypothesis 9 predicted that the favorability of media coverage would be associated with increases in the number of subsequent board appointments by the CEO. Table 16 shows that media coverage in both sub-samples was unrelated to subsequent board appointments and the interaction with firm performance was also not statistically significant. Thus, hypothesis 9 was not supported.

In summary, the results provide some support for the idea that media coverage can prompt changes in board structure and that increases in board independence lead to increased levels of positive coverage. In addition, the favorability of media coverage appears to have an affect on the likelihood of strategic change, CEO dismissal, and changes in the at-risk component of executive compensation. There was no evidence that media coverage influences the level of CEO pay and perquisites or the subsequent number of board seats for a focal CEO. Increases in board prestige did not have a significant affect on subsequent press coverage and the press was not found to be overly persistent in its coverage. In fact, prior positive coverage actually appears to increase the

likelihood that poor performance will be related with negative press. The results for the hypothesized effects are summarized in table 17. As shown in this table, the results for the CEO sub-sample were especially weak. I will discuss these results in detail in the following section.

Chapter 6: Discussion and Conclusions

This dissertation examined the role of the media as a corporate governance mechanism and explored how firms respond to positive and negative coverage from the press. In addition, it explored how the media respond to corporate governance changes, even if these changes are largely symbolic. The results provide some support for the theoretical predictions. Overall, there is some evidence that the media do play a corporate governance role in that negative press does seem to prompt changes in board structure, including the addition of independent outside directors and separation of the CEO and board chair positions. Results also suggest that changes in board structure, specifically the addition of independent directors, are viewed positively in the media, and result in more favorable subsequent press. Changes in the social independence of the board appear to have no effect on the subsequent favorability of press coverage. At the same time, the favorability of media coverage also affects the likelihood of strategic change, the at-risk portion of CEO compensation packages, and the likelihood of CEO dismissal. While portions of the proposed model did receive support, there is not compelling evidence for the overarching idea that the media actually perpetuate agency costs due to their vulnerability to symbolic action. However, the results do offer interesting insights into the ability of the media to function as a governance mechanism. In the following section I will discuss these results in more detail and outline potential contributions of this research, as well as future research that could build on this dissertation.

Hypothesis 1 predicted that the favorability of media coverage would be related to increases in the formal independence of the board but not with increases in the social

independence of the board. Overall there was evidence that negative media coverage prompts increases in formal board independence. For both sub-samples of coverage, an increase in negative press was related to CEO and board chair separation. Negative CEO coverage was related to increases in the number of outside directors. For hypothesis one, it appears that negative coverage was a better predictor of changes in formal board independence than positive coverage. This is consistent with research on negativity bias (Fiske, 1980; Rozin and Royzman, 2001, Baumeister et al., 2001) which suggests that negative information is more salient in the decision making process. Negative media coverage may be particularly salient to boards and firm leaders and thus be especially likely to prompt changes in board structure. The increases in formal independence studied here are consistent with the prevailing agency logic of corporate governance and are generally espoused by agency theory as a means to control management and reduce agency costs that arise from managerial self interest. Given that negative media coverage prompted firms to make changes consistent with this agency logic suggests that the media may act as a conduit of institutional norms and encourage firms to act according to prevailing logics.

The lack of results for media coverage affecting changes in social independence are also consistent with hypothesis one. However, these results should be interpreted with extreme caution given the many factors that can contribute to a null result. It may be that the sample was simply not large enough to detect an effect or noise introduced by imperfect measures could contribute to the insignificant results. However, the fact that multiple measures of social independence were used with similar results should increase

our confidence that firms respond to pressure from the media by making changes in formal board independence rather than social independence.

Hypothesis two suggested that increases in the formal independence of the board would result in more favorable subsequent coverage. While there was evidence that increases in formal independence resulted in increased levels of positive coverage of management issues, the overall support for this hypothesis was quite weak. There was no effect of changes in formal independence on subsequent levels of negative coverage. One reason for this may be that negative coverage was rarer than positive coverage in this sample and there may have been less variance in the negative coverage making effects more difficult to detect. From a journalist's perspective, there may be less ambiguity about events or practices that are considered negative, so while negative press may prompt change, it is unlikely that it can be reduced by symbolic action. On the other hand, there may be more uncertainty surrounding what events and practices should be considered positive. Thus, journalists may display more variance in how they report positively about events and may be more likely to be influenced by organizational actors in this regard. It is interesting to note that significant results were only found in the management issues sub-sample. It appears that increases in formal independence only effect subsequent reporting about issues related to corporate governance at the firm while not effecting overall assessments of the CEO.

In supplementary analysis, there was also some evidence that increases in the number of directors with prior board ties to the CEO, decreased the effect of increases in formal independence on subsequent positive press coverage. On the other hand, increases in demographic similarity between the CEO and the board had no effect on the

relationship between increases in formal independence and positive press. This result suggests that certain types of symbolic action may be more effective than others.

Increases in demographic similarity are more subtle changes in social independence and less likely to be discovered by journalists. On the other hand, increases in the number of shared directorships may be more easily discovered by journalists who may be more attuned to the close connections of individuals in the upper echelons of firms, and may cause less favorable assessments of increases in formal independence.

As mentioned, hypotheses 2a, 2b, and 2c, which predicted that ambiguous events such as changes in pay, diversification and performance would receive more favorable press following increases in formal independence, did not receive any empirical support. In fact, there was not even evidence of a main effect between increases in diversification and executive pay and negative press. Again, null results may be the result of insufficient power in the test or the lack of any real effect. Perhaps more specific coverage related only to executive pay or a firm's diversification strategy would have yielded significant findings for these hypotheses. Or it could be that journalists simply fail to make links between the independence of the board and outcomes such as executive pay, diversification strategy, and firm performance.

Hypothesis 3 predicted that increases in formal independence would have a greater effect on the subsequent favorability of media coverage when the prestige of the board was also increased. Again, the null results could be due to a combination of factors. Future research could look at press coverage surrounding the announcement of new directors and examine how the prestige of individual directors influences how the

media report about the appointment of that particular director. More fine grained analysis with narrow time windows may be necessary to better test this hypothesis.

In Hypothesis 4, I predicted that the media would be somewhat inertial in their coverage of firms and leaders such that prior positive press would buffer firms from subsequent negative press resulting from poor performance. The results from the management issues sub-sample suggest an alternative interpretation. It appears that the relationship between poor performance and negative press was actually stronger for firms that had received high levels of prior positive press. Perhaps this result is due to the fact that firms which have received positive press in the past violate expectations by performing poorly (Burgoon and LePoire, 1993; Rhee and Haunschild, 2006). For those firms that have been reported on positively in the past, their poor performance may be more salient to journalists and thus more likely to be reported on. This result is not consistent with prior work which has suggested that the media is inertial in its coverage and slow to report negatively on firm leaders that have been praised in the past (Chen and Meindl, 1991). Perhaps recent events, including numerous scandals at prominent companies have changed the way journalists report about firms. Rather than being inertial in their reporting to establish a sense of continuity and credibility, journalists may have incentives to report about a firm's fall from grace and thus may judge firms that have been praised in the past more harshly for poor performance.

Hypothesis 5-9 predicted that the favorability of press coverage would have effects on a variety of outcomes relevant to the firm and firm leaders. Main effect relationships were found between the favorability of press coverage and changes in firm strategy, CEO resignation and increases in the level of at-risk compensation. No results

were found for hypotheses predicting the level of CEO compensation, CEO perquisites, or the number of board seats held by the CEO. The results for the main effects hypotheses were consistently stronger in the management issues sub-sample. Perhaps coverage directed at the firm is more salient to firm actions than coverage specifically about a CEO. There were also differences in the measurement of these sub-samples that could affect the results. The CEO sub-sample used portions of articles directly about the CEO while the management issues sub-sample used entire articles. Perhaps using entire articles in the CEO sub-sample would yield different results. Overall, the results of these main effect hypotheses are somewhat encouraging in that they demonstrate an effect of the press on important decisions at the highest levels of the organization. These results lend support to the idea that the media is an important external constituent that can affect important firm outcomes (e.g. Pollock and Rindova, 2003; Deephouse, 2000).

While several of the main effect hypotheses did receive support, there was less evidence for the predicted interactions between performance and media coverage on subsequent change in strategy and CEO dismissal. For the management issues sub-sample, there was some evidence that positive press was associated with less strategic change in high performance firms. For the CEO coverage sub-sample, there was an interesting positive and significant interaction between performance and prior positive press about the CEO. This interaction suggests that when performance is high and there is highly favorable coverage about the CEO, that firms are more likely to engage in larger scale change in strategy. Perhaps in these situations, positive press specifically about the CEO can trigger high levels of CEO confidence such that firm leaders are more willing to engage in larger scale strategic change. Such an explanation is consistent with work on

CEO hubris and CEO narcissism (Hayward and Hambrick, 1997; Chatterjee and Hambrick, 2007) which has found that these constructs are linked with a greater likelihood of risk taking.

The interactions between social board independence and media coverage were also found to be statistically insignificant for the models predicting strategic change and CEO dismissal. Part of the difficulty in uncovering significant results for social independence may stem from the fact that social independence has both costs and benefits. While socially independent boards may be in a better position to monitor managerial behavior, they may lack the social cohesion that is necessary to ensure trust and efficient decision making among executives. The lack of results for social independence in this study suggests that future research should focus on both the costs and benefits of social independence and examine other measures of this construct.

Contributions

This dissertation makes a contribution to the field of corporate governance research by examining in detail the role of the media as a governance mechanism. In so doing, this study potentially contributes to work being done by both financial economists and those in the organizational literature. Financial economists have begun to study the role that the press can play to reduce agency costs. In effect, by reducing information asymmetry and threatening reputational damage, the press acts as an additional monitor of top management and firm action, prompting firms to act in the interest of shareholders. While financial economists focus on the monitoring role of the press, the organizational literature suggests that the press may actually contribute to agency problems by celebrating firm leaders and attributing firm outcomes disproportionately to such leaders

(Hayward et al., 2004). This study begins to reconcile these different streams of work and offers new insights into the effectiveness of the media as a governance control mechanism. On the one hand, by showing associations between the favorability of media coverage and important firm and leader outcomes, this study suggests that the press may play an important role in shaping leader reputations and affect important firm actions. On the other hand, by demonstrating how symbolic action can affect the favorability of subsequent press coverage, this study points out a potential bias in the media that may reduce its ability to act as an effective monitor. Thus, this study demonstrates the importance of looking at the media from multiple perspectives and suggests that the financial economics and organizational literatures may be complementary in explaining the role of the media in corporate governance.

This study also contributes to the ongoing stream of work in the organizational literature that examines how corporate leaders may counteract pressures from external constituents (Elsbach, 1994; Westphal, 1998; Westphal and Bednar, 2008). While prior work has focused on interpersonal influence behavior of CEOs towards outside board members, institutional investors, and securities analysts, or the use of impression management to appease constituents, this study demonstrates that leaders may use highly visible symbolic action to reduce the potential pressure exerted by the media. In combination, these studies suggest that leaders may use a combination of private interpersonal influence tactics as well as highly visible actions in order to attenuate pressures from external constituents. While much research has focused on how an organization is influenced by its environment, this study suggests that symbolic action is a mechanism through which organizational actors can influence or enact their

environment. Given some evidence of the media's susceptibility to symbolic action and the relatively weak effects shown by the press on several outcomes, this study raises questions about the ability of the press to effectively function in a monitoring role.

This study also contributes to the body of work that examines governance mechanisms as symbolic phenomena. While prior work in this area has focused primarily on executive compensation and stock repurchase programs, this study suggests that changes in board structure may be largely symbolic when formal and social independence are decoupled. Formal board independence is perhaps the most widely acknowledged governance control mechanism promoted by the agency logic. And while independent boards in theory should help reduce agency costs, they have been shown to have very little effect on ultimate firm performance (Dalton et al., 1998). This study offers one potential explanation for the lack of a strong link between board structure and firm performance – the adoption of these structures may be largely symbolic. While firms are pressured to adopt what appear to be outwardly legitimate structures, such adoptions do not ensure the social independence of board members. Firm leaders may be able to satisfy external pressures through the adoption of legitimate structures yet advance their own interests by maintaining or decreasing the social independence of the board. In this way, leaders are able to use board structure as a symbol to appease external constituents while maintaining or even reducing the actual control of the board. As mentioned, the institutionalization of the agency logic may create a situation in which board structures become largely symbolic precisely because their value has become taken for granted. This study suggests that as institutional logics become taken for granted by

external observers, the practices extolled by these prevailing logics may be decoupled from actual practice and actually be used to further managerial interests.

Finally, this dissertation provides a methodological contribution by outlining a methodology for measuring media content on a large scale. While prior research typically looks at the favorability of press coverage as a single continuum, this study allows us to see the different effects of positive and negative coverage on firm outcomes. By using computer aided content analysis, this study was able to derive measures of media coverage for a large sample of firms that would have been nearly impossible using traditional content analysis methods. The success of this study in measuring media coverage should encourage future researchers to use similar methodological approaches.

Limitations

Like all research, this study has certain limitations. While using computer aided content analysis allowed me to include a large sample of media coverage, there are inherent limitations to this approach. The type of computer aided content analysis used in my dissertation simply counts words that have been shown to correspond with positive and negative valence. It does not allow for judgments of the context in which those words are used. Thus, there is a tradeoff between the accuracy and fine grained nature of coding that can be done by hand, and the ability to evaluate a large sample of media coverage in a consistent and reliable manner without the potential for human bias and errors in judgment. While there are some advantages to hand coding data related to media coverage, computer aided content analysis offers an exiting new way with which researchers may be able to address important research questions.

Another limitation of this research and of research on symbolic action in general, is that I was unable to speak to the intentionality of symbolic action. We don't know whether the type of decoupling explored here and in past research is the product of managers who are intentionally manipulating the prevailing institutional logic to their advantage, or if it is just a natural outcome of firms trying to respond to multiple external pressures. Future work that explores the question of intentionality and symbolic action would be most helpful for this literature.

Future Research

Future research can build off of this dissertation to further examine the relationship between the media, firms, and other important external constituents. For example, securities analysts play an important role in determining firms' access to capital and can affect important firm outcomes. Future work could look at the role of the media in shaping the recommendations of these analysts. At the same time, analyst recommendations could also affect the favorability of subsequent reporting in the media. Future work that incorporates analysts and the media may provide a more complete picture of the interrelationships between firms and the multiple constituents that help to shape firm action. Other important constituents include institutional investors and governance watchdog groups. These constituents often use the media as a way to force firm action. Future research could help us better understand how these groups exert influence and act as governance control mechanisms through their use of the media. By simultaneously looking at the effects of different external constituents through the media, it may be possible to uncover indirect effects of the media on a range of firm actions.

In this study and in other studies of symbolic action, there is often the assumption that decoupling or other forms of symbolic action are an effective means to further individual or firm level objectives. Future research could examine the conditions under which symbolic action is or is not effective. In some situations, symbolic action is likely to backfire and actually create problems for a leader or firm that engages in such action. Earlier writings have alluded to situations where symbolic actions may be effective (Pfeffer, 1981) but little empirical work has explored this question. Thus, future work should explore the contingencies that increase or decrease the likelihood that symbolic action will be detected as such by external parties and the consequences of such detection.

Future research should also examine more carefully the role of journalists as an important firm stakeholder. We need to learn more about how journalists perceive and evaluate firms and firm policies. This dissertation makes the assumption that journalists will focus on indicators of formal independence while overlooking social aspects of board independence, in essence suggesting that journalists lack sophistication in their evaluation of governance practices. While this assumption is not explicitly tested in the current study, future research could test how sophisticated journalists are in their evaluation of governance practices and other firm policies and behaviors. For example, qualitative work examining how journalists perceive governance changes by firms would help us better understand the mechanisms by which journalists evaluate firm practices. Journalists are supposed to be objective observers and supply unbiased information to the public. This dissertation suggests that journalists may be susceptible to certain types of social influence such as symbolic action. Future work can build off of this dissertation by

examining other biases in the press and the effects of those biases on organizations and leaders. Past research has suggested that the media may attribute firm action disproportionately to firm leaders and that the press may help to create CEO celebrities (Chen and Meindl, 1991; Hayward et al., 2004). Recent work has begun to look at the potentially adverse effects of CEO celebrity for firm leaders (Wade, Porac, Pollack, and Graffin, 2006). While this study provides some evidence that favorable coverage of a CEO may prompt more drastic strategic change, future studies should examine the effects of CEO portrayals more broadly to better understand when positive coverage of CEOs and firms may be a burden and when it is an asset. For example, high levels of positive media coverage may encourage CEO hubris and lead to riskier decisions making for a range of firm outcomes. At the same time, positive coverage may increase the likelihood that future missteps will be reported on extensively.

Journalists may also provide a new context in which to study other decision biases. For example, recent work has shown how a decision making bias known as pluralistic ignorance can impede the ability of outside directors to prompt strategic change in response to poor performance (Westphal and Bednar, 2005). Journalists may suffer from a similar bias by underestimating the extent to which fellow journalists have concerns about the effectiveness of certain governance practices. Such a situation could lead to an interesting dynamic in which journalists don't necessarily believe that governance reforms are effective but would be slow to report negatively about these practices because they believe that others accept their effectiveness. A similar dynamic could occur in reporting about individual leaders.

To the extent that journalists suffer from biases that could influence their reporting of events, future work should examine the mechanisms through which journalists are monitored. This dissertation examines the question of how the media acts as a governance mechanism to potentially monitor firm action, yet raises the question of who will monitor the monitors. Given evidence that the media can affect important firm outcomes, it is important that appropriate mechanisms be in place to ensure that journalists accurately convey information.

In addition to symbolic action, future research could explore other mechanisms used by firms and firm leaders to influence subsequent press coverage. For example, it would be interesting to examine how issuing press releases may have an effect on the favorability of future reporting. Press releases may be more or less effective in shaping journalist reports depending on characteristics of the firm and firm leaders. In addition, firm leaders may use interpersonal influence behaviors with journalists to try to influence the favorability of press coverage. Future research could explore the conditions in which leaders engage in such behavior and examine its effectiveness in diminishing future negative reports. Journalists may be susceptible to these and other biases because they have to balance the need for access to top management with the need to provide objective reporting. Future research could look at how individual journalists cover a particular firm or leader and how negative reports of the firm may influence a journalist's ability to maintain access with top management.

While this dissertation looked at print news media, future research could examine alternative types of media including television and the internet and explore how information conveyed through different media may affect firms. Given the surge in user

generated content on the internet through blogs and other means, firms undoubtedly face new challenges in responding to and trying to shape media coverage.

In conclusion, this dissertation suggests that the media is an important external constituent that is worthy of future study. Historically, governance research has focused primarily on financial stakeholders of the firm while overlooking the role of other non-financial constituents. This dissertation begins to take a broader approach by examining the effects of the media on a variety of firm outcomes. The results suggest that the media, as a non-financial stakeholder, may do more than just convey information but can actually affect important firm actions. And while there is some evidence that the media can influence firms and act in a governance role, this dissertation also raises the possibility that the media may be susceptible to influence behaviors by firms and thus points out a potential weakness of the media as a governance control mechanism. In addition to providing initial evidence about the role of the media as a governance mechanism and its susceptibility to symbolic action, this dissertation also provides a foundation for future work examining the interplay between firms and the media.

FIGURE 1
OVERVIEW OF THEORETICAL MODEL

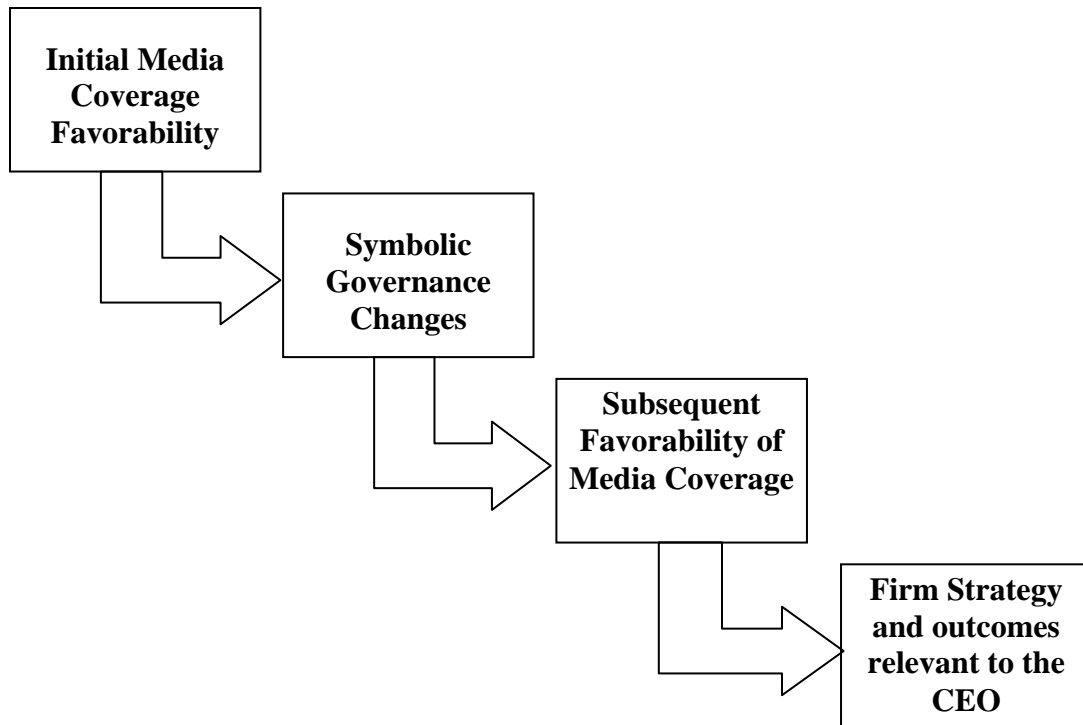


TABLE 1 – Descriptive Statistics and Correlation Table

	Mean	Std Dev	1	2	3	4	5	6	7	8	9	10	11	12
1. Neg. Coverage (Mgt. Issues)	0.51	0.71	1.00											
2. Pos. Coverage (Mgt. Issues)	1.21	1.49	0.53	1.00										
3. Word Count (Mgt. Issues)	2424.5	7465.0	0.28	0.25	1.00									
4. Negative Coverage (CEO)	0.88	0.87	0.40	0.20	0.16	1.00								
5. Positive Coverage (CEO)	1.89	1.53	0.31	0.45	0.13	0.48	1.00							
6. Word Count (CEO)	2090.7	5827.6	0.26	0.23	0.85	0.17	0.16	1.00						
7. Total Articles	15.89	32.12	0.31	0.27	0.87	0.21	0.19	0.71	1.00					
8. Change independent directors	0.15	1.31	-0.05	-0.04	-0.06	0.00	-0.02	-0.05	-0.02	1.00				
9. Change shared directorships	0.01	1.54	-0.06	0.02	-0.03	0.04	0.08	0.00	-0.03	0.15	1.00			
10. CEO Chair Separation	0.07	0.25	0.01	0.02	0.01	-0.06	-0.03	-0.01	0.01	0.02	-0.16	1.00		
11. Strategic Change	0.01	0.55	0.12	0.10	0.11	0.12	0.06	0.12	0.08	0.04	0.02	-0.02	1.00	
12. CEO Resignation	0.02	0.14	0.08	0.01	0.15	-0.02	-0.03	0.17	0.04	-0.07	0.06	0.16	0.01	1.00
13. Total Compensation	9922.4	14192.1	0.11	0.12	0.20	0.09	0.14	0.32	0.18	0.02	0.00	-0.01	0.21	0.01
14. At-Risk Compensation	0.57	0.27	0.03	0.01	0.01	0.06	0.03	0.07	0.01	-0.05	0.03	0.07	0.03	0.00
15. CEO Perquisites	122.33	364.69	0.04	0.06	0.17	0.07	0.10	0.24	0.11	0.05	0.04	-0.04	0.01	0.06
16. Diversification	0.29	0.37	0.08	0.07	0.19	0.02	0.01	0.21	0.19	-0.01	-0.01	-0.01	-0.14	0.01
17. Firm Size	8.83	1.13	0.28	0.27	0.42	0.23	0.29	0.41	0.51	-0.06	-0.01	0.00	-0.15	-0.07
18. Performance (ROA)	1.83	7.94	-0.05	-0.01	0.00	-0.11	0.00	-0.02	0.04	0.03	0.06	-0.05	-0.07	-0.06
19. Performance (Stock Ret)	0.13	0.43	-0.08	-0.06	-0.10	-0.10	0.00	-0.11	-0.08	0.00	-0.13	-0.05	0.00	-0.07
20. Turnover	0.13	0.33	0.09	0.08	0.12	-0.01	0.02	0.12	0.07	-0.01	-0.03	0.44	0.00	0.37
21. Board Size	10.77	2.48	0.12	0.12	0.12	0.07	0.09	0.17	0.16	0.11	0.04	0.04	-0.16	-0.03
22. Tenure	6.42	6.98	-0.04	0.03	-0.06	0.00	-0.03	-0.03	-0.08	0.05	0.14	-0.22	-0.01	-0.08
23. Institutional Ownership	0.68	0.16	-0.12	-0.12	-0.13	-0.07	-0.07	-0.10	-0.18	-0.03	-0.01	-0.01	-0.10	0.06
24. Shared Directors	0.93	1.93	0.05	0.03	0.00	0.04	-0.01	0.05	-0.02	0.07	0.39	-0.05	-0.03	0.03
25. Outsider Ratio	0.71	0.15	-0.05	-0.02	-0.06	0.00	0.01	-0.05	-0.05	0.13	-0.02	-0.07	-0.03	-0.01
26. Duality	0.76	0.43	0.05	0.07	-0.07	0.06	0.04	0.00	-0.08	-0.02	0.10	-0.48	0.03	-0.04

N = 871

TABLE 1 – Descriptive Statistics and Correlation Table (continued)

	13	14	15	16	17	18	19	20	21	22	23	24	25	26
13. Total Compensation	1.00													
14. At-Risk Compensation	0.36	1.00												
15. CEO Perquisites	0.16	0.01	1.00											
16. Diversification	0.04	-0.01	0.11	1.00										
17. Firm Size	0.15	0.09	0.14	0.28	1.00									
18. Performance (ROA)	0.03	0.05	-0.08	-0.05	-0.07	1.00								
19. Performance (Stock Ret)	-0.03	-0.15	-0.02	-0.02	-0.03	-0.06	1.00							
20. Turnover	0.09	0.03	0.07	0.04	0.03	-0.13	-0.08	1.00						
21. Board Size	0.02	0.01	0.01	0.23	0.46	-0.05	-0.07	0.07	1.00					
22. Tenure	0.02	-0.04	0.01	0.03	-0.02	0.04	0.03	-0.20	0.01	1.00				
23. Institutional Ownership	-0.02	0.06	0.01	-0.04	-0.14	0.03	0.06	0.00	-0.18	0.05	1.00			
24. Shared Directors	0.00	-0.05	0.06	0.03	0.09	-0.10	-0.03	0.01	0.15	0.23	-0.03	1.00		
25. Outsider Ratio	-0.07	0.10	-0.04	0.01	0.13	-0.06	0.01	-0.02	0.02	-0.14	0.12	-0.05	1.00	
26. Duality	0.04	0.08	-0.01	0.13	0.09	0.00	-0.04	-0.17	0.00	0.25	0.05	0.12	0.20	1.00

TABLE 2
H1 – GEE Regression of Change in Independent Directors

	CEO Coverage	Mgt. Issues Coverage
Constant	0.822 (0.690)	0.879 (0.693)
Performance (ROA)	0.008 (0.006)	0.006 (0.006)
Board Size	-0.138*** (0.018)	-0.139*** (0.019)
Tenure	0.001 (0.006)	0.002 (0.006)
Firm Size	0.070 (0.055)	0.055 (0.054)
Total Compensation	0.000 (0.000)	0.000 (0.000)
Diversification	0.061 (0.122)	0.042 (0.123)
Institutional Ownership	0.029 (0.285)	0.034 (0.286)
Total Article Count	0.000 (0.002)	0.002 (0.003)
Word Count	-0.000* (0.000)	-0.000* (0.000)
Positive Coverage	-0.059 ⁺ (0.032)	-0.004 (0.034)
Negative Coverage	0.120* (0.057)	0.066 (0.071)

Industry and year dummies included as controls

N= 864 firm year observations

+ p < .10; * p < .05; ** p < .01; *** p < .001

TABLE 3
H1 – Heckman Selection Models of CEO / Board Chair Separation

	CEO Coverage	Mgt. Issues Coverage
Constant	-2.50 ⁺ (1.39)	-2.51 (1.69)
Performance (ROA) _(t-1)	-0.004 (0.011)	-0.008 (0.012)
Board Size _(t-1)	-0.036 (0.041)	-0.032 (0.042)
Tenure _(t-1)	0.044 ^{**} (0.017)	0.041 ⁺ (0.023)
Firm Size _(t-1)	0.172 (0.127)	0.138 (0.138)
Total Compensation _(t-1)	0.000 (0.000)	0.000 (0.000)
Diversification _(t-1)	-0.078 (0.263)	-0.176 (0.274)
Institutional Ownership _(t-1)	-0.271 (0.674)	-0.112 (0.715)
Total Article Count _(t-1)	0.002 (0.008)	0.001 (0.008)
Turnover _(t-1)	1.111 ^{***} (0.289)	1.133 ^{***} (0.250)
Word Count _(t-1)	0.000 (0.000)	0.000 (0.000)
Positive Coverage _(t-1)	-0.025 (0.065)	0.080 (0.059)
Negative Coverage _(t-1)	0.215 [*] (0.099)	0.321 ^{**} (0.119)

Industry and year dummies included as controls

N= 1003 firm year observations

+ p < .10; * p < .05; ** p < .01; *** p < .001

TABLE 4
H1 – GEE Models of Change in Social Similarity

	CEO Coverage	Mgt. Issues Coverage
Constant	-0.017 (0.327)	-0.034 (0.327)
Performance (ROA) _(t-1)	-0.003 (0.003)	-0.003 (0.003)
Board Size _(t-1)	-0.003 (0.009)	-0.001 (0.009)
Tenure _(t-1)	-0.003 (0.003)	-0.003 (0.003)
Firm Size _(t-1)	0.023 (0.026)	0.017 (0.026)
Total Compensation _(t-1)	0.000 (0.000)	0.000 (0.000)
Diversification _(t-1)	-0.037 (0.059)	-0.043 (0.059)
Institutional Ownership _(t-1)	-0.025 (0.139)	-0.025 (0.139)
Total Article Count _(t-1)	0.000 (0.001)	0.001 (0.001)
Word Count _(t-1)	0.000 (0.000)	0.000 (0.000)
Positive Coverage _(t-1)	-0.024 (0.016)	0.014 (0.015)
Negative Coverage _(t-1)	0.015 (0.034)	-0.031 (0.027)

Industry and year dummies included as controls

N= 799 firm year observations

+ p < .10; * p < .05; ** p < .01; *** p < .001

TABLE 5
H2 – GEE Models of Media Coverage (Mgt. Issues)

	<u>Positive Coverage</u>		<u>Negative Coverage</u>	
Constant	-1.279 ⁺	-0.974	-1.195 ^{***}	-0.994 ^{**}
	(0.664)	(0.634)	(0.337)	(0.311)
Performance (ROA) _(t-1)	-0.001	0.002	0.000	0.002
	(0.005)	(0.006)	(0.003)	(0.003)
Board Size _(t-1)	-0.044 [*]	-0.055 ^{**}	-0.008	-0.010
	(0.018)	(0.018)	(0.009)	(0.009)
Tenure _(t-1)	0.011 ⁺	0.011 ⁺	0.005 ⁺	0.005
	(0.006)	(0.007)	(0.003)	(0.003)
Firm Size _(t-1)	0.292 ^{***}	0.278 ^{***}	0.102 ^{***}	0.086 ^{**}
	(0.052)	(0.052)	(0.026)	(0.026)
Turnover _(t-1)	0.067	0.135	0.171 [*]	0.171 [*]
	(0.148)	(0.158)	(0.073)	(0.078)
Total Compensation _(t-1)	0.000 [*]	0.000 ⁺	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)
Diversification _(t-1)	0.073	0.122	0.046	0.046
	(0.118)	(0.119)	(0.060)	(0.058)
Institutional Ownership _(t-1)	-0.250	-0.193	0.154	0.185
	(0.280)	(0.283)	(0.142)	(0.139)
Total Article Count _(t-1)	0.002	0.002	0.001	0.001
	(0.003)	(0.003)	(0.001)	(0.001)
Word Count	0.000	0.000	0.000 ^{**}	0.000 ^{**}
	(0.000)	(0.000)	(0.000)	(0.000)
Word Count (t-1)	0.000	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)
Negative Coverage _(t-1)	0.161 [*]	0.155 [*]	0.211 ^{***}	0.280 ^{***}
	(0.070)	(0.074)	(0.035)	(0.036)
Positive Coverage _(t-1)	0.343 ^{***}	0.384 ^{***}	0.065 ^{***}	0.066 ^{***}
	(0.033)	(0.035)	(0.016)	(0.017)
CEO / Chair Separation _(t-1)	-0.248	-0.297	0.116	0.147
	(0.196)	(0.211)	(0.097)	(0.104)
Change in Independent Directors _(t-1)	0.087 ^{**}	0.077 [*]	-0.011	-0.009
	(0.033)	(0.034)	(0.016)	(0.017)
Change in Social Similarity _(t-1)		0.062		-0.030
		(0.073)		(0.036)

Industry and year dummies included as controls

N= 858 firm year observations

+ p < .10; * p < .05; ** p < .01; *** p < .001

TABLE 6
H2 – GEE Models of Media Coverage (CEO Coverage)

	<u>Positive Coverage</u>		<u>Negative Coverage</u>	
Constant	-0.817 (0.791)	-0.306 (0.785)	-1.180* (0.532)	-1.015+ (0.534)
Performance (ROA) _(t-1)	0.002 (0.006)	0.002 (0.007)	0.003 (0.004)	0.004 (0.004)
Board Size _(t-1)	-0.040+ (0.022)	-0.041+ (0.023)	-0.010 (0.014)	0.001 (0.015)
Tenure _(t-1)	-0.011 (0.007)	-0.008 (0.008)	-0.004 (0.005)	-0.005 (0.005)
Firm Size _(t-1)	0.289*** (0.062)	0.241*** (0.065)	0.190*** (0.041)	0.175*** (0.043)
Turnover _(t-1)	-0.330* (0.167)	-0.342+ (0.181)	-0.030 (0.086)	-0.015 (0.092)
Total Compensation _(t-1)	0.000+ (0.000)	0.000+ (0.000)	0.000 (0.000)	0.000 (0.000)
Diversification _(t-1)	0.084 (0.140)	0.126 (0.147)	-0.103 (0.094)	-0.102 (0.099)
Institutional Ownership _(t-1)	-0.105 (0.332)	-0.125 (0.347)	-0.035 (0.213)	0.122 (0.224)
Total Article Count _(t-1)	0.000 (0.002)	0.000 (0.002)	-0.001 (0.002)	0.000 (0.002)
Word Count	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Word Count (t-1)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Negative Coverage _(t-1)	0.250** (0.074)	0.271** (0.079)	0.137** (0.041)	0.128** (0.044)
Positive Coverage _(t-1)	0.363*** (0.033)	0.360*** (0.035)	0.051** (0.019)	0.048* (0.020)
CEO / Chair Separation _(t-1)	-0.001 (0.224)	0.080 (0.244)	-0.046 (0.118)	-0.141 (0.127)
Change in Independent Directors _(t-1)	0.052 (0.037)	0.045 (0.040)	0.012 (0.020)	0.012 (0.021)
Change in Social Similarity _(t-1)		0.011 (0.083)		-0.080+ (0.043)

Industry and year dummies included as controls

N= 858 firm year observations

+ p < .10; * p < .05; ** p < .01; *** p < .001

TABLE 7
H3 – GEE Models of Board Prestige and Media Coverage (Mgt. Issues)

	Positive Coverage		Negative Coverage	
Constant	-1.340 ⁺	-1.346 ⁺	-1.127 ^{***}	-1.131 ^{***}
	(0.674)	(0.674)	(0.338)	(0.337)
Performance (ROA) _(t-1)	-0.001	-0.001	0.000	0.000
	(0.005)	(0.005)	(0.003)	(0.003)
Board Size _(t-1)	-0.048 ^{**}	-0.048 ^{**}	-0.010	-0.010
	(0.018)	(0.018)	(0.009)	(0.009)
Tenure _(t-1)	0.010	0.010	0.004	0.004
	(0.006)	(0.006)	(0.003)	(0.003)
Firm Size _(t-1)	0.299 ^{***}	0.300 ^{***}	0.104 ^{***}	0.105 ^{***}
	(0.053)	(0.053)	(0.026)	(0.026)
Turnover _(t-1)	0.071	0.069	0.153 [*]	0.153 [*]
	(0.149)	(0.149)	(0.073)	(0.073)
Total Compensation _(t-1)	0.000 [*]	0.000 [*]	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)
Diversification _(t-1)	0.080	0.079	0.054	0.053
	(0.119)	(0.119)	(0.059)	(0.059)
Institutional Ownership _(t-1)	-0.199	-0.201	0.166	0.164
	(0.283)	(0.283)	(0.141)	(0.141)
Total Article Count _(t-1)	0.002	0.002	0.001	0.001
	(0.003)	(0.003)	(0.001)	(0.001)
Word Count	0.000	0.000	0.000 ^{**}	0.000 ^{**}
	(0.000)	(0.000)	(0.000)	(0.000)
Word Count (t-1)	0.000	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)
Negative Coverage _(t-1)	0.154 [*]	0.156 [*]	0.214 ^{***}	0.216 ^{***}
	(0.0700)	(0.071)	(0.035)	(0.035)
Positive Coverage _(t-1)	0.337 ^{***}	0.337 ^{***}	0.063 ^{***}	0.062 ^{***}
	(0.033)	(0.033)	(0.016)	(0.016)
CEO / Chair Separation _(t-1)	-0.274	-0.274	0.146	0.146
	(0.199)	(0.199)	(0.098)	(0.098)
Change in Independent Directors _(t-1)	0.077 [*]	0.077 [*]	-0.021	-0.021
	(0.038)	(0.038)	(0.019)	(0.019)
Change in board prestige	0.011	0.012	0.003	0.003
	(0.016)	(0.016)	(0.008)	(0.008)
Change in prestige X Change in independence		-0.003 (0.007)		-0.002 (0.004)

Industry and year dummies included as controls

N= 856 firm year observations

+ p < .10; * p < .05; ** p < .01; *** p < .001

TABLE 8
H3 – GEE Models of Board Prestige and Media Coverage (CEO)

	<u>Positive Coverage</u>		<u>Negative Coverage</u>	
Constant	-0.878 (0.806)	-0.896 (0.808)	-1.142* (0.506)	-1.133* (0.505)
Performance (ROA) _(t-1)	0.002 (0.006)	0.002 (0.006)	0.002 (0.004)	0.002 (0.004)
Board Size _(t-1)	-0.042 ⁺ (0.022)	-0.041 ⁺ (0.022)	-0.010 (0.014)	-0.010 (0.014)
Tenure _(t-1)	-0.012 (0.008)	-0.012 (0.008)	-0.005 (0.005)	-0.005 (0.005)
Firm Size _(t-1)	0.302*** (0.063)	0.306*** (0.063)	0.183*** (0.039)	0.182*** (0.039)
Turnover _(t-1)	-0.275 ⁺ (0.168)	-0.277 ⁺ (0.168)	-0.025 (0.088)	-0.024 (0.088)
Total Compensation _(t-1)	0.000* (0.000)	0.000* (0.000)	0.000 (0.000)	0.000 (0.000)
Diversification _(t-1)	0.119 (0.142)	0.116 (0.142)	-0.085 (0.089)	-0.084 (0.089)
Institutional Ownership _(t-1)	-0.125 (0.337)	-0.132 (0.338)	-0.045 (0.206)	-0.044 (0.205)
Total Article Count _(t-1)	0.000 (0.002)	0.000 (0.002)	0.000 (0.001)	0.000 (0.001)
Word Count	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Word Count (t-1)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Negative Coverage _(t-1)	0.120 ⁺ (0.065)	0.120 ⁺ (0.065)	0.108** (0.036)	0.112** (0.036)
Positive Coverage _(t-1)	0.351*** (0.036)	0.348*** (0.036)	0.050* (0.021)	0.050* (0.021)
CEO / Chair Separation _(t-1)	-0.002 (0.228)	-0.003 (0.228)	-0.044 (0.121)	-0.042 (0.121)
Change in Independent Directors _(t-1)	0.037 (0.044)	0.036 (0.044)	0.020 (0.023)	0.020 (0.023)
Change in board prestige	0.007 (0.018)	0.008 (0.018)	-0.012 (0.010)	-0.012 (0.010)
Change in prestige X Change in independence		-0.007 (0.008)		0.002 (0.005)

Industry and year dummies included as controls

N= 856 firm year observations

+ p < .10; * p < .05; ** p < .01; *** p < .001

TABLE 9
H4 – GEE Models of Negative Media Coverage

	<u>Mgt. Issues</u>		<u>CEO</u>	
Constant	-1.132** (0.333)	-1.236*** (0.334)	-0.947+ (0.492)	-0.990* (0.490)
Poor Performance (ROA)	0.010** (0.004)	0.003 (0.005)	0.015** (0.005)	0.008 (0.008)
Board Size _(t-1)	-0.006 (0.009)	-0.005 (0.009)	-0.009 (0.014)	-0.008 (0.014)
Tenure _(t-1)	0.006+ (0.003)	0.006+ (0.003)	-0.003 (0.005)	-0.003 (0.005)
Firm Size _(t-1)	0.102*** (0.027)	0.102*** (0.027)	0.179*** (0.039)	0.176*** (0.039)
Turnover _(t-1)	0.135+ (0.072)	0.126+ (0.071)	-0.040 (0.087)	-0.044 (0.087)
Total Compensation _(t-1)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Diversification _(t-1)	0.053 (0.060)	0.055 (0.060)	-0.084 (0.089)	-0.083 (0.088)
Institutional Ownership _(t-1)	0.196 (0.143)	0.201 (0.143)	0.005 (0.206)	0.021 (0.205)
Total Article Count _(t-1)	0.000 (0.001)	0.000 (0.001)	0.000 (0.001)	0.000 (0.001)
Word Count	0.000* (0.000)	0.000* (0.000)	0.000 (0.000)	0.000 (0.000)
Negative Coverage _(t-1)	0.180*** (0.035)	0.165*** (0.036)	0.088* (0.036)	0.086* (0.037)
Positive Coverage _(t-1)	0.068*** (0.016)	0.085*** (0.018)	0.057** (0.020)	0.065** (0.021)
CEO / Chair Separation _(t-1)	-0.007 (0.016)	-0.006 (0.016)	0.012 (0.020)	0.013 (0.020)
Change in Independent Directors _(t-1)	0.121 (0.097)	0.116 (0.097)	-0.039 (0.120)	-0.037 (0.120)
Poor Performance X Positive Coverage		0.007* (0.003)		0.004 (0.003)

Industry and year dummies included as controls

N= 852 firm year observations

+ p < .10; * p < .05; ** p < .01; *** p < .001

TABLE 10
H5 – GEE Models of Strategic Change (MGT ISSUES Coverage)

Constant	0.533 (0.335)	0.526 (0.335)	0.512 (0.334)	0.536 (0.335)	0.536 (0.335)
Performance (ROA) _(t-1)	-0.002 (0.002)	-0.001 (0.003)	0.001 (0.003)	-0.002 (0.002)	-0.002 (0.002)
Board Size _(t-1)	-0.014 (0.009)	-0.013 (0.009)	-0.014 (0.008)	-0.014 (0.009)	-0.014 (0.009)
Tenure _(t-1)	-0.005 (0.003)	-0.005 (0.003)	-0.005 (0.003)	-0.005 (0.003)	-0.005 (0.003)
Firm Size _(t-1)	-0.078 ^{**} (0.026)	-0.078 ^{**} (0.026)	-0.077 ^{**} (0.026)	-0.078 ^{**} (0.026)	-0.078 ^{**} (0.026)
Turnover _(t-1)	0.000 (0.044)	-0.001 (0.044)	-0.004 (0.044)	0.000 (0.044)	0.000 (0.044)
Total Compensation _(t-1)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
At-risk Compensation _(t-1)	0.138 [*] (0.063)	0.136 [*] (0.063)	0.136 [*] (0.063)	0.138 [*] (0.063)	0.139 [*] (0.063)
Institutional Ownership _(t-1)	-0.130 (0.128)	-0.136 (0.128)	-0.136 (0.128)	-0.132 (0.128)	-0.132 (0.128)
Outsider Ratio	0.058 (0.136)	0.066 (0.136)	0.070 (0.136)	0.057 (0.136)	0.057 (0.136)
Duality	0.040 (0.042)	0.040 (0.042)	0.037 (0.042)	0.040 (0.042)	0.040 (0.042)
Change in Independent Directors _(t-1)	0.005 (0.009)	0.004 (0.009)	0.005 (0.009)	0.005 (0.009)	0.005 (0.009)
CEO / Chair Separation _(t-1)	-0.031 (0.059)	-0.035 (0.059)	-0.036 (0.059)	-0.032 (0.059)	-0.031 (0.059)
Social Similarity	-0.025 (0.017)	-0.024 (0.017)	-0.023 (0.017)	-0.020 (0.021)	-0.021 (0.022)
Total article count	0.002 ⁺ (0.001)	0.002 [*] (0.001)	0.002 [*] (0.001)	0.002 ⁺ (0.001)	0.002 (0.001)
Word Count	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Positive Coverage	-0.001 (0.012)	-0.001 (0.012)	0.005 (0.012)	-0.001 (0.012)	-0.001 (0.012)
Negative Coverage	0.063 ^{**} (0.024)	0.066 ^{**} (0.024)	0.062 ^{**} (0.024)	0.061 [*] (0.024)	0.063 ^{**} (0.024)

Negative Coverage X Performance	-0.003 (0.003)			
Positive Coverage X Performance		-0.003* (0.002)		
Neg Coverage X Social Similarity			-0.008 (0.020)	
Pos Coverage X Social Similarity				-0.002 (0.010)

Industry and year dummies included as controls

N= 892 firm year observations

+ p < .10; * p < .05; ** p < .01; *** p < .001

TABLE 11
H5 – GEE Models of Strategic Change (CEO Coverage)

Constant	0.521 (0.337)	0.474 (0.336)	0.554 ⁺ (0.336)	0.531 (0.336)	0.521 (0.337)
Performance (ROA) _(t-1)	-0.002 (0.002)	0.001 (0.003)	-0.012 ^{**} (0.004)	-0.002 (0.002)	-0.002 (0.002)
Board Size _(t-1)	-0.012 (0.009)	-0.012 (0.009)	-0.012 (0.009)	-0.012 (0.009)	-0.012 (0.009)
Tenure _(t-1)	-0.005 ⁺ (0.003)	-0.005 ⁺ (0.003)	-0.005 ⁺ (0.003)	-0.005 (0.003)	-0.005 ⁺ (0.003)
Firm Size _(t-1)	-0.078 ^{**} (0.026)	-0.074 ^{**} (0.026)	-0.079 ^{**} (0.026)	-0.078 ^{**} (0.026)	-0.078 ^{**} (0.026)
Turnover _(t-1)	-0.003 (0.044)	-0.008 (0.044)	0.003 (0.044)	-0.002 (0.044)	-0.003 (0.044)
Total Compensation _(t-1)	0.000 ^{**} (0.000)	0.000 ^{**} (0.000)	0.000 ^{**} (0.000)	0.000 ^{**} (0.000)	0.000 ^{**} (0.000)
At-risk Compensation _(t-1)	0.136 [*] (0.063)	0.133 [*] (0.063)	0.135 [*] (0.063)	0.138 [*] (0.063)	0.136 [*] (0.063)
Institutional Ownership _(t-1)	-0.148 (0.129)	-0.132 (0.129)	-0.173 (0.129)	-0.144 (0.129)	-0.148 (0.129)
Outsider Ratio	0.036 (0.137)	0.043 (0.136)	0.059 (0.136)	0.026 (0.136)	0.036 (0.137)
Duality	0.045 (0.042)	0.049 (0.042)	0.045 (0.042)	0.046 (0.042)	0.045 (0.042)
Change in Independent Directors _(t-1)	0.004 (0.009)	0.004 (0.009)	0.005 (0.009)	0.004 (0.009)	0.004 (0.009)
CEO / Chair Separation _(t-1)	-0.025 (0.060)	-0.020 (0.060)	-0.032 (0.059)	-0.021 (0.060)	-0.025 (0.060)
Social Similarity	-0.026 (0.017)	-0.025 (0.017)	-0.028 ⁺ (0.017)	-0.001 (0.025)	-0.027 (0.028)
Total article count	0.002 ⁺ (0.001)	0.002 ⁺ (0.001)	0.002 ⁺ (0.001)	0.002 ⁺ (0.001)	0.002 ⁺ (0.001)
Word Count	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Positive Coverage	0.011 (0.011)	0.009 (0.011)	0.000 (0.011)	0.012 (0.011)	0.011 (0.011)
Negative Coverage	0.017 (0.019)	0.022 (0.019)	0.027 (0.019)	0.015 (0.019)	0.017 (0.019)

Negative Coverage X Performance	-0.005 [*] (0.002)		
Positive Coverage X Performance		0.005 ^{***} (0.001)	
Negative Coverage X Social Sim.			-0.023 (0.017)
Positive Coverage X Social Sim.			0.000 (0.009)

Industry and year dummies included as controls

N= 892 firm year observations

+ p < .10; * p < .05; ** p < .01; *** p < .001

TABLE 12
H6 – GEE Models of CEO Resignation (MGT ISSUES Coverage)

Constant	-4.494 (2.872)	-4.744 (2.896)	-4.593 (2.872)	-4.683 (2.946)	-4.507 (2.880)
Performance (stock ret)	-2.094 [*] (0.883)	-2.521 [*] (1.103)	-2.518 [*] (1.180)	-2.107 [*] (0.888)	-2.093 [*] (0.883)
Board Size _(t-1)	-0.143 (0.146)	-0.134 (0.146)	-0.127 (0.147)	-0.143 (0.146)	-0.143 (0.146)
Tenure _(t-1)	-0.331 ^{**} (0.113)	-0.326 ^{**} (0.113)	-0.328 ^{**} (0.113)	-0.323 ^{**} (0.113)	-0.331 ^{**} (0.113)
Firm Size _(t-1)	0.062 (0.301)	0.066 (0.300)	0.052 (0.302)	0.072 (0.304)	0.063 (0.301)
Turnover _(t-1)	-2.156 ⁺ (1.245)	-2.147 ⁺ (1.245)	-2.151 ⁺ (1.246)	-2.176 ⁺ (1.257)	-2.154 ⁺ (1.245)
Total Compensation _(t-1)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
At-risk Compensation _(t-1)	-0.257 (1.013)	-0.217 (1.020)	-0.257 (1.007)	-0.266 (1.011)	-0.254 (1.014)
Diversification _(t-1)	0.768 (0.692)	0.769 (0.693)	0.782 (0.693)	0.752 (0.694)	0.768 (0.692)
Institutional Ownership _(t-1)	3.286 ⁺ (1.866)	3.388 ⁺ (1.894)	3.296 ⁺ (1.868)	3.311 ⁺ (1.870)	3.300 ⁺ (1.876)
Outsider Ratio	0.576 (2.091)	0.588 (2.094)	0.587 (2.076)	0.631 (2.082)	0.563 (2.098)
Duality	-0.081 (0.615)	-0.084 (0.613)	-0.109 (0.614)	-0.090 (0.618)	-0.082 (0.616)
Change in Independent Directors _(t-1)	0.204 (0.222)	0.218 (0.225)	0.214 (0.223)	0.191 (0.222)	0.203 (0.223)
CEO / Chair Separation _(t-1)	0.246 (1.253)	0.239 (1.256)	0.229 (1.255)	0.330 (1.265)	0.252 (1.254)
Shared Directorships	0.105 (0.152)	0.100 (0.153)	0.105 (0.151)	0.151 (0.170)	0.117 (0.200)
Total article count	-0.006 (0.016)	-0.005 (0.016)	-0.005 (0.016)	-0.006 (0.016)	-0.006 (0.016)
Word Count	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Positive Coverage	-0.590 ⁺ (0.333)	-0.566 ⁺ (0.327)	-0.558 ⁺ (0.329)	-0.637 ⁺ (0.356)	-0.583 ⁺ (0.342)
Negative Coverage	0.818 [*] (0.351)	0.764 [*] (0.361)	0.796 [*] (0.352)	0.959 [*] (0.447)	0.820 [*] (0.352)

Negative Coverage X Performance	0.612 (0.877)		
Positive Coverage X Performance		0.414 (0.736)	
Negative Coverage X Shared Dir.			-0.068 (0.140)
Positive Coverage X Shared Dir.			-0.012 (0.144)

N= 842 firm year observations

+ p < .10; * p < .05; ** p < .01; *** p < .001

TABLE 13
H6 – GEE Models of CEO Resignation (CEO Coverage)

Constant	-3.821 (2.961)	-3.841 (2.960)	-4.035 (2.946)	-4.228 (3.076)	-4.243 (2.991)
Performance (ROA) _(t-1)	-1.877* (0.843)	-2.047+ (1.232)	-2.584+ (1.561)	-1.884* (0.847)	-1.810* (0.848)
Board Size _(t-1)	-0.145 (0.140)	-0.144 (0.140)	-0.138 (0.139)	-0.154 (0.140)	-0.136 (0.139)
Tenure _(t-1)	-0.309** (0.110)	-0.307** (0.110)	-0.325** (0.111)	-0.323** (0.113)	-0.313** (0.110)
Firm Size _(t-1)	-0.063 (0.321)	-0.062 (0.321)	-0.065 (0.315)	-0.030 (0.331)	-0.059 (0.319)
Turnover _(t-1)	-2.150+ (1.233)	-2.155+ (1.236)	-2.129+ (1.228)	-2.213+ (1.235)	-2.016+ (1.211)
Total Compensation _(t-1)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
At-risk Compensation _(t-1)	-0.493 (0.969)	-0.473 (0.975)	-0.456 (0.962)	-0.492 (0.962)	-0.460 (0.959)
Diversification _(t-1)	0.589 (0.671)	0.580 (0.672)	0.702 (0.666)	0.541 (0.678)	0.635 (0.664)
Institutional Ownership _(t-1)	3.423+ (1.934)	3.430+ (1.936)	3.624+ (1.940)	3.432+ (1.942)	3.616+ (1.941)
Outsider Ratio	0.309 (2.061)	0.287 (2.061)	0.218 (2.042)	0.408 (2.081)	0.339 (2.054)
Duality	0.054 (0.619)	0.055 (0.618)	0.086 (0.617)	0.067 (0.619)	0.065 (0.618)
Change in Independent Directors _(t-1)	0.205 (0.219)	0.202 (0.220)	0.195 (0.219)	0.206 (0.215)	0.177 (0.216)
CEO / Chair Separation _(t-1)	0.209 (1.231)	0.223 (1.232)	0.103 (1.237)	0.269 (1.226)	0.162 (1.227)
Shared Directorships	0.126 (0.148)	0.124 (0.148)	0.141 (0.147)	0.280 (0.186)	0.225 (0.203)
Total article count	-0.010 (0.016)	-0.010 (0.016)	-0.005 (0.017)	-0.010 (0.016)	-0.005 (0.017)
Word Count	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Positive Coverage	0.074 (0.179)	0.073 (0.179)	0.096 (0.179)	0.076 (0.182)	0.113 (0.185)
Negative Coverage	0.358 (0.277)	0.352 (0.279)	0.335 (0.279)	0.520+ (0.310)	0.363 (0.277)

Negative Coverage X Performance	0.162 (0.854)		
Positive Coverage X Performance		0.329 (0.550)	
Negative Coverage X Shared Dir.			-0.165 (0.163)
Positive Coverage X Shared Dir.			-0.058 (0.107)

N= 842 firm year observations

+ p < .10; * p < .05; ** p < .01; *** p < .001

TABLE 14
H7 & 8 – GEE Models of CEO Compensation (CEO Coverage)

	Total Pay	At-Risk Pay	Perks
Constant	-1075.702 (5400.907)	0.285* (0.143)	-47.242 (178.697)
Performance (ROA) _(t-1)	56.362 (40.108)	0.002 (0.001)	0.903 (1.370)
Board Size _(t-1)	-342.079* (154.910)	-0.009* (0.004)	-4.506 (5.197)
Tenure _(t-1)	17.238 (53.804)	-0.002 (0.001)	1.632 (1.795)
Firm Size _(t-1)	3094.825*** (449.820)	0.047*** (0.012)	36.855* (15.048)
Turnover _(t-1)	-2813.996*** (960.647)	-0.078** (0.028)	-6.547 (34.064)
Total Compensation _(t-1)	0.182*** (0.024)	0.000 (0.000)	0.000 (0.001)
At-risk Compensation _(t-1)	-1932.030 (1242.981)	0.251*** (0.035)	23.720 (43.164)
Diversification _(t-1)	573.399 (971.627)	-0.004 (0.026)	16.762 (32.233)
Institutional Ownership _(t-1)	510.401 (2231.361)	0.023 (0.060)	70.314 (74.793)
Outsider Ratio	-750.403 (2290.061)	0.124* (0.062)	-32.715 (77.024)
Duality	-71.252 (776.825)	-0.010 (0.021)	-2.434 (26.273)
Change in Independent Directors _(t-1)	254.705 (212.643)	0.005 (0.006)	-6.918 (7.565)
CEO / Chair Separation _(t-1)	-95.732 (1282.370)	0.029 (0.038)	-6.642 (45.558)
Total article count	-46.224** (15.122)	-0.001** (0.000)	-0.048 (0.511)
Word Count	0.091 (0.074)	0.000 (0.000)	-0.007** (0.003)
Positive Coverage	-185.800 (221.537)	-0.016** (0.006)	0.736 (7.673)
Negative Coverage	332.990 (388.344)	0.007 (0.011)	10.933 (13.503)
Perks			0.508*** (0.028)

Industry and year dummies included as controls

N= 842 firm year observations

+ p < .10; * p < .05; ** p < .01; *** p < .001

TABLE 15
H7 & 8 – GEE Models of CEO Compensation (MGT ISSUES Coverage)

	Total Pay	At-Risk Pay	Perks
Constant	-257.237 (5539.509)	0.293* (0.144)	-6.423 (177.773)
Performance (ROA) _(t-1)	47.354 (40.083)	0.001 (0.001)	0.805 (1.353)
Board Size _(t-1)	-350.663 (157.813)	-0.009 (0.004)	-5.702 (5.161)
Tenure _(t-1)	17.635 (54.898)	-0.002 (0.001)	1.779 (1.788)
Firm Size _(t-1)	2936.296*** (454.945)	0.041*** (0.012)	33.717* (14.841)
Turnover _(t-1)	-2526.746** (955.613)	-0.078** (0.029)	-2.255 (34.160)
Total Compensation _(t-1)	0.177*** (0.023)	0.000 (0.000)	0.000 (0.001)
At-risk Compensation _(t-1)	-1928.507 (1240.979)	0.249*** (0.035)	26.071 (42.901)
Diversification _(t-1)	572.509 (995.693)	-0.002 (0.026)	13.961 (32.120)
Institutional Ownership _(t-1)	587.150 (2269.257)	0.024 (0.060)	72.048 (74.357)
Outsider Ratio	-499.999 (2332.668)	0.133* (0.063)	-31.974 (76.924)
Duality	-198.185 (787.351)	-0.012 (0.021)	-7.868 (26.162)
CEO / Chair Separation _(t-1)	207.415 (210.825)	0.005 (0.006)	-7.376 (7.558)
Social Similarity	-344.135 (1265.477)	0.032 (0.038)	-12.076 (45.359)
Total article count	-1.011 (20.413)	-0.001* (0.001)	1.122 (0.686)
Word Count	-0.184* (0.080)	0.000 (0.000)	-0.010*** (0.003)
Positive Coverage	134.060 (227.070)	-0.013* (0.007)	5.384 (7.872)
Negative Coverage	359.057 (478.280)	0.025+ (0.014)	8.240 (16.705)
Perks			0.509*** (0.028)

Industry and year dummies included as controls

N= 842 firm year observations

+ p < .10; * p < .05; ** p < .01; *** p < .001

TABLE 16
H9 – GEE Models of Change in Board Seats

	<u>Mgt. Issues</u>	<u>CEO</u>
Constant	0.151 (0.288)	0.093 (0.286)
Performance (ROA) _(t-1)	-0.001 (0.002)	-0.001 (0.002)
Board Size _(t-1)	0.020* (0.008)	0.021* (0.008)
Tenure _(t-1)	-0.002 (0.003)	-0.002 (0.003)
Firm Size _(t-1)	-0.017 (0.024)	-0.017 (0.024)
Turnover _(t-1)	0.037 (0.059)	0.048 (0.059)
Total Compensation _(t-1)	0.000 (0.000)	0.000 (0.000)
At-risk Compensation _(t-1)	0.020 (0.072)	0.025 (0.072)
Diversification _(t-1)	-0.059 (0.052)	-0.056 (0.051)
Institutional Ownership _(t-1)	0.180 (0.121)	0.175 (0.121)
Outsider Ratio	-0.192 (0.127)	-0.200 (0.126)
Duality	0.018 (0.043)	0.021 (0.043)
Change in Independent Directors _(t-1)	-0.011 (0.013)	-0.013 (0.013)
CEO / Chair Separation _(t-1)	-0.122 (0.080)	-0.129 (0.080)
Total article count	-0.001 (0.001)	0.000 (0.001)
Word Count	-0.000 (0.000)	-0.000* (0.000)
Positive Coverage	-0.010 (0.013)	-0.007 (0.013)
Negative Coverage	0.029 (0.028)	0.022 (0.023)

Industry and year dummies included as controls

N= 797 firm year observations

+ p < .10; * p < .05; ** p < .01; *** p < .001

TABLE 17
SUMMARY OF RESULTS

Independent Variable	Dependent Variable	Statistical Significance		Consistent with prediction?	
		Mgt. Issues	CEO	Mgt. Issues	CEO
H1					
Positive Press	CEO/Chair separation	Null	Null	No	No
Negative Press	CEO/Chair separation	**	*	Yes	Yes
Positive Press	Change in independent directors	Null	+	No	Yes
Negative Press	Change in independent directors	Null	*	No	Yes
Positive Press	Change in social independence	Null	Null	Yes	Yes
Negative Press	Change in social independence	Null	Null	Yes	Yes
H2					
Change in Independent Directors	Positive Press	**	Null	Yes	No
Change in Independent Directors	Negative Press	Null	Null	No	No
Change in Social Similarity	Positive Press	Null	Null	Yes	Yes
Change in Social Similarity	Negative Press	Null	Null	Yes	Yes
H2a, H2b, H2c					
Change Ind. Dir. X Pay (Divers., Perf.)	Positive Press	Null	Null	No	No
Change Ind. Dir. X Pay (Divers., Perf.)	Negative Press	Null	Null	No	No
H3					
Change in board Prestige	Positive Press	Null	Null	No	No
Change in board Prestige	Negative Press	Null	Null	No	No
H4					
Poor Performance X Prior Positive Press	Negative Press	*	Null	No	No
H5					
Positive Press	Strategic Change	Null	Null	No	No
Negative Press	Strategic Change	**	Null	Yes	No
Positive Press X Performance	Strategic Change	*	***	Yes	No
Negative Press X Performance	Strategic Change	Null	*	No	No
Positive Press X Social Independence	Strategic Change	Null	Null	No	No
Negative Press X Social Independence	Strategic Change	Null	Null	No	No
H6					
Positive Press	CEO Dismissal	+	Null	Yes	No
Negative Press	CEO Dismissal	*	Null	Yes	No
Positive Press X Performance	CEO Dismissal	Null	Null	No	No
Negative Press X Performance	CEO Dismissal	Null	Null	No	No
Positive Press X Social Independence	CEO Dismissal	Null	Null	No	No
Negative Press X Social Independence	CEO Dismissal	Null	Null	No	No
H7					
Positive Press	Total Compensation	Null	Null	No	No
Negative Press	Total Compensation	Null	Null	No	No
Positive Press	At-Risk Compensation	*	**	Yes	Yes
Negative Press	At-Risk Compensation	+	Null	Yes	No
H8					
Positive Press	CEO perquisites	Null	Null	No	No
Negative Press	CEO perquisites	Null	Null	No	No
H9					
Positive Press	Board Seats	Null	Null	No	No
Negative Press	Board Seats	Null	Null	No	No

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VITA

Michael Kay Bednar was born in Lafayette, Indiana on April 19th, 1978, the son of Susan K. Bednar and David A. Bednar. He graduated from Fayetteville High School in Fayetteville, Arkansas in 1996. Following high school he attended Brigham Young University where he graduated cum laude with a Bachelor of Science in accounting. He spent two years in Bolivia serving as a missionary and later worked as a Spanish instructor and full-time administrator at the Missionary Training Center in Provo, Utah. He entered the University of Texas at Austin in August of 2003. His research has been published in Administrative Science Quarterly and in Research Methodology in Strategy and Management. He will begin work as an assistant professor of business administration at the University of Illinois at Urbana-Champaign in the fall of 2008.

Permanent Address: 11215 Research Blvd #1081 Austin, TX 78759

This dissertation was typed by the author.