THE REPUTATIONAL IMPACT OF CORPORATE GOVERNANCE:
THE CASE OF POISON PILLS

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Governance arrangements can elicit strong reactions from stakeholders, which suggests that governance may affect the reputations of firms and their managers. However, this relationship has attracted little systematic study. Accordingly, we develop and test a theoretical perspective about how governance arrangements can impact the reputations of firms and their managers. We identify reasons why governance choices may affect such reputations, and propose that they are likely to affect managers’ reputations particularly strongly. We also propose that distinct social groups may encode governance arrangements into reputations differently, and that contingency factors may enhance or mitigate their reputational impact. We test these ideas through an empirical study of how one governance arrangement - poison pills - impacted the reputations of corporations and their managers. The results largely support our arguments. They suggest that poison pills negatively affected reputations and that managers’ reputations were affected more strongly than their firms’. The reputational damage varied over time and depending on firm characteristics (i.e., its visibility and financial performance). These results suggest that corporate governance choices have implications for perceptions of the broader well-being of the firm, beyond the more narrow focus on financial performance often seen in governance research.
A central goal of governance research has been to understand the impact of governance arrangements (i.e., governance related practices and choices) on important outcomes for firms and managers. Broadly speaking, contemporary studies in this vein have typically taken an agency-theoretic perspective and have focused on how different governance choices affect tangible outcomes such as financial performance, managerial turnover, and executive compensation (for a review see Daily, Dalton, & Cannella, 2003). More recently, though, some scholars have noted that governance choices can affect important *intangible* outcomes that are also economically consequential to the firm and its managers (e.g., legitimacy or reputation). A growing body of work suggests that governance arrangements, such as executive compensation plans or the composition of the board of directors, may influence external stakeholders’ perceptions of the firm and its managers (Bednar, 2012; Sanders & Boivie, 2004; Westphal & Graebner, 2010) and that managers sometimes adopt governance practices to actively manage their own reputations (Westphal & Zajac, 1994).

However, there has been little systematic study of governance arrangements’ direct effects on social evaluations (e.g. reputation, legitimacy, status, cf. Bitektine 2011) of the firm and its managers. Much of the extant research has either inferred that certain governance related behaviors influence social evaluations (Westphal & Zajac, 1994) or has drawn on media accounts of how governance practices are perceived (Davis & Greve, 1997). The lack of direct study constitutes an important gap in the literature, first because strong reputations, high status and robust legitimacy constitute valuable intangible assets (Fombrun, 1996; Podolny, 1993; Suchman, 1995; Wade, Porac, Pollock, & Graffin, 2006). Moreover, examining how governance choices augment or damage these assets can lead to a fuller understanding of governance arrangements’ nonfinancial outcomes and provide a firmer foundation for research in which
these social evaluations appear as important causes or consequences of governance choices (e.g., Davis & Greve, 1997; Westphal & Zajac, 1994)

This paper takes an initial step to fill the gap by focusing on reputation specifically. Our overall aim is to develop and empirically test a theoretical perspective on how governance choices affect corporate and managerial reputations. While the core premise of this perspective is that specific governance choices are indeed likely to affect assessments of both corporate and managerial reputations, we further consider three key features of governance arrangements that may affect how they are encoded into those judgments. The first feature is that governance choices can reveal managers’ underlying values and attitudes (Hirsch, 1986; Westphal & Zajac, 1994). This raises a question as to whether governance arrangements will be especially consequential for managerial reputations. The second feature is that governance choices can affect stakeholders’ interests in very different ways and often pit the interests of various groups against each other (Jensen & Meckling, 1976). This raises the question of whether governance arrangements’ reputational effects will differ across stakeholder groups. The last feature is that perceptions of governance arrangements are thought to vary over time and across firms (Davis, 1991; Zajac & Westphal, 2004), which raises the question of what contingencies may drive such variance and potentially influence the reputational impact of governance practices. We explore this question by examining three contingency factors that are prominent in extant governance and reputation research: changing perceptions over time (Davis, 1991; Davis & Greve, 1997; Zajac & Westphal, 2004), firm visibility (Rindova, Williamson, Petkova, & Sever, 2005), and firm financial performance (Fombrun & Shanley, 1990; Love & Kraatz, 2009).

Our empirical study explores these issues by focusing on the reputational consequences of a particular governance practice known as the poison pill, a popular anti-takeover device that
came to prominence in the 1980’s (Davis, 1991). While many governance practices might affect reputational assessments, poison pills are an attractive choice for several reasons. They were both well-publicized and controversial during the 1980s, and so are likely to have been noticed and encoded by reputational evaluators. Poison pills appeared to pit the interests of key stakeholder groups (i.e. managers and shareholders) against one another by providing managerial security while potentially destroying shareholder value (Mahoney, Sundaramurthy, & Mahoney, 1996; Sundaramurthy, Mahoney, & Mahoney, 1997). Furthermore, poison pills often led to strong attributions about the values of managers at firms that adopted them (Hirsch, 1986). These features of poison pills are well aligned with the research questions raised above. Our analyses examine how the presence of a poison pill affected the standing of a firm and its managers in the widely-used *Fortune* “Most Admired Company” reputation survey (Basdeo, Smith, Grimm, Rindova, & Derfus, 2006; Fombrun & Shanley, 1990; Staw & Epstein, 2000) during the period of this practice’s emergence and widespread diffusion from 1985 to 1989. We start with the survey’s published ratings of corporate reputations, but also employ specific survey items to assess managers’ reputations and to compare reputational assessments of owner representatives (securities analysts) with those of peer-firm executives.

The study aims to contribute in three main areas. It contributes to the governance literature by developing and testing a theoretical perspective on how and why corporate and managerial reputations can be affected by governance choices. More broadly, it highlights the latent opportunity for governance scholars to connect with recent research that explores the antecedents of reputation and other social approval assets (e.g., legitimacy, certifications, celebrity, etc.) (Bansal & Clelland, 2004; Deephouse, 2000; Turban & Cable, 2003; Wade et al., 2006) and thereby understand a broader range of non-financial outcomes associated with governance.
choices. The paper also contributes to the organizational literature on reputation, by examining an important but to date understudied category of antecedent (i.e., governance arrangements) and theorizing about how and why governance figures into reputational evaluations. The study is also the first (to our knowledge) to systematically compare the impact of firm behavior on corporate vs. managerial reputations. It thus answers recent calls for increased attention to understanding managerial reputation (Graffin, Pfarrer, & Hill, 2012). Finally, the study contributes to research on the diffusion of governance practices by showing how one prominent and controversial practice affected key stakeholder’s reputational evaluations of firms employing it. Prior research (e.g., Davis, 1991; Davis & Greve, 1997) suggests that diffusion of these practices is importantly shaped by their impact on social evaluations of firms, yet this is the first study we are aware of that directly investigates this relationship. The fact that poison pills themselves have attracted continuing scholarly attention in multiple fields and remain a widely used practice adds to this contribution (e.g., Schepker & Oh, 2012). In the following section, we theorize about how and why governance arrangements are generally likely to influence reputational evaluations. We then introduce our context and develop hypotheses about the influence of poison pills in particular on corporate and managerial reputation.

THEORY AND HYPOTHESES

Corporate Reputation, Managerial Reputation, and Their Antecedents

Reputation is commonly seen as a perceptual evaluation, an “estimation” of a person or thing. Following this general idea, scholars have most often conceptualized corporate reputation as a subjective evaluation of a firm’s overall quality or appeal in the eyes of key stakeholders (Fombrun, 1996; for a review see Lange, Lee, & Dai, 2011). We adopt that conceptualization herein. Strong corporate reputations have been associated with sustained long-term performance
(Barney, 1991; Roberts & Dowling, 2002), access to resources and customers (Shapiro, 1983) and other material benefits (see (Fombrun, 1996; Fombrun & Van Riel, 2004).

While much organizational research has focused on corporate reputation, we also consider the reputations of a firm’s managers and particularly those of the more visible top managers who make decisions regarding governance arrangements. We conceptualize managerial reputation as an overall judgment of quality of a firm’s managers by key stakeholders (Graffin et al., 2012; Tsui, 1984; Zinko, Ferris, Blass, & Laird, 2007). Much as with corporate reputation, strong reputations provide managers with significant benefits. These include increased power, compensation and promotion opportunities (Tsui, 1984; Wade et al., 2006).

Research on the antecedents of corporate and managerial reputations reflects three quite similar themes (which is unsurprising given that corporations tend to be evaluated in part as if they are people, cf. Bromley, 2001). First, a number of studies have found that assessors assign high reputations to organizations that show their ability to deliver valued outcomes (e.g., high quality products, or high financial performance) (Fombrun & Shanley, 1990; Fombrun & Van Riel, 2004; Shapiro, 1982, 1983). Similarly, an individual’s perceived effectiveness or competence is often seen as the core of their reputation, both by organization theorists (Tsui, 1984, 1994) and particularly by economists (Hirshleifer, 1993; Weigelt & Camerer, 1988). While this first theme suggests that substantive or more objective criteria play a large role in determining reputational evaluations, other more symbolic factors (i.e., meanings that evaluators assign to actions or outcomes that go beyond their intrinsic content or functional use, cf. Zott and Huy, 2007) are also important determinants of reputations. In particular, a second theme common in reputation research is that perceived alignment with the broader cultural environment is crucial in reputational evaluations (Rao, 1994; Rindova & Fombrun, 1999). For example,
firms that adopt popular management practices enjoy reputational benefits, even after the performance benefits associated with the practices are accounted for (Staw & Epstein, 2000), and at the managerial level socially given role-sets shape the underlying criteria for evaluation of effectiveness (Tsui, 1984). Finally, attributions of character traits are a prominent mechanism through which reputations are judged (Bromley, 1993; Davies, Chun, Da Silva, & Roper, 2003). This kind of attribution is commonplace when individuals (or managers) are evaluated (Gaines-Ross, 2003), but it also enters into evaluations of firms because people tend to anthropomorphize firms and attribute human character traits to them (Bromley, 2001). Researchers have thus posited that the appearance of desirable character traits such as reliability and trustworthiness enhance corporate reputations, while attributions of undesirable ones such as opportunism effect reputational damage (Davies et al., 2003; Love & Kraatz, 2009).

While corporate and managerial reputations are distinct constructs (Graffin et al., 2012), they are likely to be highly correlated where top managers are concerned. These managers are tightly identified with the firm and the actual impact of their decisions on organizational performance is difficult to isolate, so that evaluators tend to attribute organizational performance outcomes to top managers and also attribute those manager’s evident traits to their organizations (Graffin et al., 2012; Khurana, 2002; Meindl, Ehrlich, & Dukerich, 1985). Nevertheless, we believe that governance arrangements may disproportionately impact manager’s reputations (as we will discuss further below) and so we examine both constructs herein.

**Governance Arrangements and Reputation**

The above discussion provides some guidance as to how governance arrangements enter into evaluators’ assessments of the reputation of a firm and its managers. First, reputational evaluators seem likely to account for the apparent impact of governance arrangements on
organizational performance. However, the link between these arrangements and financial performance is often uncertain and ambiguous (Bhagat & Black, 2002; Dalton, Daily, Ellstrand, & Johnson, 1998). In part because of this tenuous linkage, the two more symbolic criteria mentioned above (conformity to the broader cultural environment and character attributions) seem likely to come into play. The influence of the broader cultural environment is seen in research that has linked perceptions of governance practices’ appropriateness to prevailing institutional logics (Zajac & Westphal, 2004). Modern conceptualizations of appropriate governance are centered on increasing shareholder value while controlling the actions of self-interested managers, or what has been termed the agency logic (Aguilera & Jackson, 2010; Daily et al., 2003; Davis, 2005, 2009; Fiss & Zajac, 2004). To the extent that governance practices align with this logic, they tend to be evaluated positively and as representing “good” governance. For example, even though independent board structures (e.g. majority of independent directors, CEO board chair separation) have proven difficult to link directly with financial performance (Dalton et al., 1998), they ostensibly inhibit CEO efforts to inappropriately control the board and thus have taken on a broader meaning as a symbol of “good” governance (Bednar, 2012; Westphal & Graebner, 2010). Conversely, CEO duality has come to symbolize “bad” governance because it conflicts with the prevailing agency logic.

Characterizations of governance arrangements as “good” or “bad” also highlight their potential to engender character trait attributions towards firms and managers (Hirsch, 1986). For example, when compensation packages lead organizational executives to be richly rewarded despite organizational failure, we often see outrage in the media that portrays these managers as greedy or opportunistic (Core, Guay, & Larcker, 2008). Such episodes often evoke strong reactions because the outcomes are deemed inherently wrong or unfair (Haidt, 2007).
While the arguments above provide reason to expect that governance choices will directly influence corporate and managerial reputations, our theoretical perspective also accounts for the three features of governance arrangements and accompanying questions that we called attention to earlier. The first question asked whether governance choices are likely to particularly impact managerial reputations. We suggest that this is likely, because top managers themselves play a large role in enacting governance arrangements and these arrangements typically affect outcomes such as compensation and job security that are consequential for managers. Consequently, governance practices will likely be seen to reveal the manager’s personal values and attitudes and their alignment, or lack thereof, with those of shareholders. Research on trust suggests that perceptions of value misalignment evoke strong reactions of distrust (Mayer, Davis, & Schoorman, 1995; Sitkin & Roth, 1993). Further, negative cues about character are especially likely to have a strong reputational impact (Mishina, Block, & Mannor, 2012). Thus, when top executives and boards make “bad” governance choices, which potentially signal that management’s values are not aligned with shareholders, it is likely that attributions of greed and opportunism directed specifically towards those managers will result and that the reputation of those managers will be particularly harmed. A contrast with more purely administrative practices (e.g., TQM, managed teams, decentralization) may be instructive. These practices tend to be evaluated through a more narrow logic of technical rationality wherein they seem less likely to evoke strong attributions of character, suggesting a lesser impact on perceptions of managers.

The second question asked whether governance arrangements have different reputational effects depending on the evaluating stakeholder group. This idea is quite intuitive from the perspective of the governance literature, which emphasizes that decisions about governance practices are often driven by differences in the interests of managers and shareholders (Jensen &
Meckling, 1976). If perceptions and subsequent evaluations follow interests, we should see corresponding differences in the reputational impact of those practices. However, the more symbolic drivers of reputational assessments mentioned above (i.e., alignment with the broader cultural environment and character attributions) are also important herein. Cultural factors could either reinforce or break down interest-driven differences in perceptions, depending on whether managers and shareholders hew to different or similar managerial models (Useem, 1993; Zajac & Westphal, 2004). For example, reputational evaluations could diverge if managers espoused the virtues of managerial capitalism (i.e., the “corporate” logic of governance), while shareholders embraced the ideas of shareholder capitalism and the agency logic (Zajac & Westphal, 2004). Finally, character attributions may play a distinctive role. Assessments based on character attributions tend to be driven by relatively universal considerations (e.g., fairness, integrity) rather than those located within a particular social role (Haidt, 2007), so when such attributions are salient, reputational assessments may not differ widely between social groups. Taken together, these points suggest the value of a multifaceted approach to understanding how the reputational impact of governance practices may (or may not) differ across social groups.

The final question highlighted the potentially contingent nature of governance arrangements’ reputational impacts. Prior research within the reputation literature has shown that even when organizations adopt the same practice, the reputational impact on the firm can vary (Basdeo et al., 2006; Love & Kraatz, 2009). While a number of such contingencies have been identified, here we suggest the value of focusing on two broad categories of them. The first contingency category represents factors located within the broader cultural environment, which may change over time and shift perceptions of practices accordingly (Davis, 1991; Thornton, 2002; Tolbert & Zucker, 1983). The second category is that of firm-level characteristics (e.g.,
visibility and performance), which are important because interpretation of a given reputationrelevant signal depends on it first becoming known and then on what else is known about the firm (Jones, Jones, & Little, 2000; Kraatz & Love, 2006).

**Research Context: Poison Pills and Governance During the 1980s**

We study the impact of governance arrangements on reputation by examining poison pills, a type of takeover defense that arose in the mid 1980’s (Davis, 1991; Davis & Greve, 1997). A poison pill grants shareholders of a target firm the right to buy shares of the newly formed entity at a deeply discounted price in the event of a hostile takeover not approved by the board. The intent of these provisions is often to make the target firm unattractive to potential buyers, in effect poisoning the target by putting enormous financial burden on any acquirer.

Poison pills provide a rich setting in which to examine how governance arrangements can affect corporate and managerial reputations. To more fully consider these potential effects, it is important to understand the broader cultural dynamics and business environment that existed when the practice arose in the mid-1980s. During this time period, a “shareholder value” orientation was taking hold on corporate America (Davis, 2009; Fiss & Zajac, 2004). According to this perspective the primary purpose of the firm was to increase shareholder value, and investors - rather than managers - were increasingly seen as most able to efficiently allocate firm resources (Useem, 1993). This fundamental change fueled a shift towards what has been termed the “agency logic” of corporate governance (Zajac & Westphal, 2004), which suggests that managers’ pursuit of value destroying and/or self-interested actions is of fundamental concern (Fama & Jensen, 1983; Jensen, 1989). This view emphasizes that control mechanisms, and particularly the market for corporate control, can help overcome the fundamental problem of getting managers to behave in the owners’ interests (Berle & Means, 1932).
At the same time, the hostile takeovers that triggered poison pills and other anti-takeover defenses were a major part of the 1980s wave of change. Hirsch’s (1986) research traces the evolution of hostile takeovers from their origins in the 1960s until 1985. He reveals prevailing cultural views of these events through examining the language and symbolism of the time (e.g., portraying bidders as “raiders”). By 1980, he suggests, hostile takeovers were an accepted corporate practice and “the motives of target firm managers and executives for resisting offers are now called into serious question” (p. 820). Yet, even as hostile takeovers gained increasing legitimacy as a business practice, target firms and their managers continued to resist. Poison pills were one of several anti-takeover devices (others included staggered boards, golden parachutes, greenmail etc.) but were typically regarded as the most effective of these devices, and as such were at the center of the controversy around takeovers. The controversy highlighted the differences between the new shareholder value perspective and the traditional managerial view of the firm. Some managers justified poison pills with arguments that takeovers were disruptive to firms and communities, and so portrayed hostile acquirers in negative and emotionally charged terms such as “corporate raiders” and “barbarians” (Hirsch, 1986). However, many observers viewed poison pills in a negative light, portraying them as a tool for managerial entrenchment. This perspective saw poison pills as facilitating unchecked power for managers, with some even going so far as to predict that poison pills could lead to “the destruction of the corporation as we know it” (Jensen, 1988: 347).

Despite the controversy surrounding poison pills, the practice spread widely and rapidly. The first poison pill was adopted in 1984, and in November 1985 the Delaware Supreme Court ruled that boards could legally adopt poison pills without shareholder approval. By the end of 1989, over 60% of large U.S. companies had adopted some form of poison pill (Davis, 1991).
Hypotheses

**Effect of poison pills on organizational and managerial reputations.** We now turn to specific hypotheses about the reputational impact of poison pills. The general rationale regarding how governance arrangements can impact corporate and managerial reputations emphasized that evaluators’ reputational assessments are likely to incorporate performance outcomes, symbolic conformity with broader cultural standards, and character attributions. With regard to performance outcomes, poison pills had significant negative (though modest) effects on adopting firms’ stock market valuations (Mahoney et al., 1996; Malatesta & Walkling, 1988; Ryngaert, 1988). As for broader cultural norms, poison pills were antithetical to the ascendant agency logic of governance (Fama & Jensen, 1983; Zajac & Westphal, 2004), which portrayed the practice as blatantly interfering with the market for corporate control and denying shareholders potential stock premiums (Jensen & Ruback, 1983; Walsh & Seward, 1990). Relatedly, antitakeover provisions such as poison pills were seen as efforts by managers to “rig the rules of the game” and shield themselves from the consequences of making value-destroying decisions. Consequently, managers of firms with poison pills could be and often were portrayed as self-serving, opportunist, or parochial (Hirsch, 1986). For these reasons, we predict that:¹

\[ H1: \text{Corporate and managerial reputations at firms with poison pills will be worse than at those without poison pills, ceteris paribus.} \]

**Disproportionate impact on managerial reputations.** We also made a general point that governance arrangements are particularly likely to affect reputational assessments of a firm’s managers, notably because managers’ governance choices reveal their values’ alignment (or lack

¹ We conceptualize poison pills as a characteristic of a firm and propose hypotheses accordingly. This is because once enacted, poison pills remained in force for a relatively long period (usually 10 years).
thereof) with those of shareholders (Westphal & Zajac, 1994). Poison pills appear to fit well with this general line of reasoning. Because shareholders would potentially lose out on superior returns as a result of thwarting potential acquisition attempts, poison pills symbolized management’s own lack of commitment to the prevailing agency logic and so might well raise questions about manager’s personal values and attitudes. Managers who adopted poison pills also could be seen as self-serving in that the practice had the effect of protecting the manager from near-certain turnover in the event of a takeover. For these reasons their use easily led to attributions of self-dealing and poor character on the part of that management (Hirsch, 1986). While these factors might also impact judgments of corporate reputation, they seem to particularly reflect upon managers. Thus we propose that:

*H2: Poison pills’ impact on reputational assessments of management will be larger than their impact on reputational assessments of the corporation overall.*

**Differences between analysts and executives.** We also reasoned that different social groups may encode governance choices into reputation differently, due to variations in their interests and the managerial models that each accept. We test this by comparing the reactions to poison pills by two important groups – securities analysts and peer firm executives.

From security analysts’ point of view, poison pills should be perceived negatively and thus inflict reputational damage. Securities analysts are prominent members of the financial community who clearly favor the interests and perspectives of shareholders over those of management in governance matters (Eccles & Crane, 1988; Useem, 1996). For instance, analysts were in the vanguard of those advocating a shareholder value ideology and the agency logic (Zajac & Westphal, 2004), and analysts pressured managers to adopt practices, strategies and governance arrangements that favored shareholders (Useem, 1993, 1996). Given that poison
pills seemingly favored managers at the expense of shareholders, analysts should have been especially likely to inflict a reputational penalty on firms that had adopted poison pills.

Based on interests alone, executives would seem likely to have an opposite (i.e., positive) reaction, as poison pills favored managerial interests. However, other factors suggest that executives’ reactions may have been more ambivalent. First, executives may have been pulled in different directions by the disparate models of management that held sway in the 1980s. Executives had long held to the traditional “corporate logic” of managerial capitalism, but the ascending shareholder value model (and its associated arguments against takeover defenses) had made strong inroads among executives and board members by the time poison pills arrived on the scene in the mid-1980s (Useem, 1993, 1996; Zajac & Westphal, 2004). Character attribution processes may also have pulled executives in different directions. While executives may have interpreted the presence of poison pills in other firms as evidence of poor character for reasons adduced earlier, it is also possible that those same adopters would be seen as fighting the good fight against “raiders” and “barbarians” who initiated hostile takeovers (Hirsch, 1986).

The logic above suggest that executives may well have found judging poison pills a task of some complexity, and it is difficult to predict whether their final evaluation would be negative or positive on balance. However, it is at reasonable to expect that (at least) they would exact a smaller reputational penalty for use of the practice than would analysts:

\[ H3: \text{The negative relationship between poison pills and organizational or managerial reputation proposed in } H1 \text{ will be weaker when the evaluators are executives than when they are analysts.} \]

Changes in reputational impact over time. The final question we raised asks how the reputational impact of governance arrangements will vary depending on contingencies at the
level of the broader cultural environment and the firm. The former brings to mind the potential impact of changing perceptions of practices, as neo-institutional research has established that the cultural standing of practices can change over time (Hoffman, 1999; Tolbert & Zucker, 1983). The central argument is that perceptions become more positive as the practice becomes more prevalent, because observers interpret widespread use as an indication of the practice’s efficacy and because diffusion is often coincident with and driven by changing cultural norms (Fligstein, 1990). However, little research has theorized or empirically examined how the reputational impact of practices actually changes in such situations. One study, by Love and Kraatz (2009), found that use of the controversial practice of downsizing initially led evaluators to inflict substantial reputational penalties on adopting firms, but that as the practice came into widespread use these penalties diminished to the point of disappearing. The change was attributed to changes in cultural norms.

Poison pills are an intriguing case because the practice’s diffusion ran counter to broader trends in cultural norms and institutional logics. Though poison pills had some degree of legitimacy (as evidenced by their widespread diffusion), they were also viewed as bad governance in the ascending shareholder value perspective. As mentioned, poison pills were first adopted during a time period when the agency logic of governance was gaining widespread acceptance. Westphal and Zajac (2004) provide compelling evidence of a shift from the corporate logic to the agency logic of governance during the 1980’s, such that even executives and directors increasingly accepted the latter (Davis, 2005; Useem, 1996). This suggests that while the reputational damage inflicted by downsizing diminished as changing cultural norms made the practice more palatable (Love & Kraatz, 2009), the reputational damage from poison pills may actually increase as the ascending agency logic becomes more strongly established:
H4: Over time, reputational assessments of firms with poison pills and of managers at those firms will be increasingly negative, relative to firms without them.

Effect of firm visibility. While the first contingency hypothesis focused on the broader cultural environment, the final two hypotheses consider firm-level contingencies. The first of them highlights reputational evaluators’ attentional processes. There is considerable variance in firm visibility – the degree to which the behaviors of a firm and its managers are publicized, noted and scrutinized by information intermediaries and the media (Fombrun, 1996; Pollock, Rindova, & Maggitti, 2008). Moreover, reputational evaluators are in an information-dense environment where not all reputation-relevant actions are likely to be attended to (Ocasio, 1997). These points suggest that firms’ behaviors are more likely to be encoded into their reputations and those of their managers as firm visibility increases (Rindova, Pollock, & Hayward, 2006; Zuckerman, 1999). Governance arrangements in particular are not always widely publicized, so the degree to which a firm and its managers are the subject of scrutiny and attention may be an important contingency in this domain. Based on this logic, we expect that the reputational effect of poison pills will be greater at highly visible firms. Thus:

H5: The negative relationship between poison pills and organizational or managerial reputation proposed in H1 will be stronger at more visible firms than at less visible ones.

Effect of Firm Performance. A second firm-level contingency that may shape how reputational evaluators interpret governance arrangements is the firm’s financial performance. This contingency is quite salient given the importance of financial performance in both the governance and reputation literatures (Dalton et al., 1998; Fombrun & Shanley, 1990; Tsui, 1984). However, two alternative arguments can be made regarding the possible direction of this
moderating effect (because of these arguments’ complexity, the rationales that follow are restricted to governance practices that are generally viewed negatively).

One argument is that high performance will tend to shield firms and their managers from potential negative reputational effects of “bad” governance practices. Reputation researchers have argued that high performers may receive the “benefit of the doubt” from reputational evaluators where negative signals are concerned (Jones et al., 2000). High performance also tends to undercut agency-logic claims that “bad” governance choices will rob shareholders through encouraging inefficient or self-serving decisions by managers or the firm’s board. Taken together, these arguments suggest that high-performing firms and their managers may suffer a smaller reputational penalty when such a governance practice is enacted.

However, an alternative and opposite argument can be advanced. Specifically, reputation researchers have drawn on expectancy violation theory (Burgoon, 1993) to argue that high performance creates an implicit expectation that the firm will act appropriately, and so negative signals thereto will be particularly salient and disproportionately impact the reputation of high-performing firms (Rhee & Haunschild, 2006). Similarly, a governance perspective might suggest that if a firm has looked after shareholders in general (as evinced by high performance) it has no need to engage in “bad” governance practices and a decision to do so would attract particular attention. Both these rationales suggest that high-performing firms and their managers would suffer more severe reputational penalties in the wake of “bad” governance decisions.

While these arguments are cast in terms of “bad” governance practices in general, they each seem to apply to poison pills specifically. Thus we offer the competing hypotheses below:

*H6a: Poison pills will impact the reputations of high-performing firms and of their managers less than they will low-performing firms.*
H6b: Poison pills will impact the reputations of high-performing firms and of their managers more than they will low-performing firms.

METHODS

Data and Sample

Our initial sample was drawn from the largest U.S. industrial firms during the 1980s. We followed Davis (1991) in including publicly traded firms that appeared on either the 1985 or the 1980 Fortune 500 list of the largest U.S. firms by sales. This sample is an attractive one because these firms represented the core of American industrial firms during the study period, they adopted poison pills widely, and they have been the subject of prior studies of the practice (e.g., Davis, 1991; Davis and Greve, 1997). Also, Fortune “Most Admired Companies” data, which is required for firms to be in the final sample, is available only for such large firms (The Fortune survey is perhaps misnamed, as its sole criterion for inclusion is that firms be among the ten largest by sales – not by reputation – in their Fortune-assigned industry).

Our study period was 1985 to 1989. The initial year corresponds quite closely to the adoption of the first poison pill by a Fortune 500 firm (Crown Zellerbach in August, 1984), and covers the time period when poison pills came into widespread use (Davis, 1991). The study period starts in 1985 because that was the first year with usable Fortune survey data broken down by social groups (executives and securities analysts), and ends in 1989 because data on poison pill usage were not available to us after that date. Data on the use of poison pills were from the Investor Responsibility Research Center (IRRC) dataset, financial performance data were from COMPUSTAT, and firm visibility data were from the Institutional Broker’s Estimate System (I/B/E/S). The final sample includes 270 firms and the 1,130 firm-years for which all needed data were available for those firms.
Measures

**Dependent Variables.** In order to test our hypotheses, we needed measures of both corporate and managerial reputation as assessed by different audiences. We obtained these from the *Fortune* America’s “Most Admired Companies” survey. Since the early 1980’s, *Fortune* has annually polled thousands of executives (including board members) and stock analysts, asking them to rate the overall quality of the ten largest firms in their industry by rating each firm along eight different dimensions (using a 0 to 10 scale). The dimensions are *management quality; product quality; financial soundness; innovativeness; value as a long-term investment; ability to attract, develop and retain personnel; community and environmental responsibility; and use of corporate assets*. These eight scores are subsequently averaged into an overall firm rating that *Fortune* reports in its annual “Most Admired Companies” list. This aggregate rating has been widely used in prior research on corporate reputation (Basdeo et al., 2006; Fombrun & Shanley, 1990; Roberts & Dowling, 2002). Research has also employed the individual items and audience-level measures of reputation, though less often (Brown & Perry, 1994; Love & Kraatz, 2009). The disaggregated data is especially helpful in our study, because it allows us to create measures that reflect differences between evaluative groups and between managers and firms.

We construct measures of both corporate and managerial reputation for each of the two evaluating groups from the *Fortune* survey (i.e. analysts and executives). This “2x2” structure leads to four dependent variables. The first two (*Corporate Reputation-Executive* and *Corporate Reputation-Analyst*) capture corporate reputation by averaging the eight *Fortune* survey items as rated by executives and analysts respectively. This procedure mirrors *Fortune*’s own aggregation procedure with the exception that it is segregated across respondent groups.
For the two managerial reputation dependent measures (*Managerial Reputation-Executive* and *Managerial Reputation-Analyst*), we use the single item “management quality” from the *Fortune* survey, again segregated by respondents (i.e., executives and analysts). While the managerial reputation measures each rely on a single survey item, that item itself has a strong claim to validity because the question asks directly about the construct of interest and the assessors are area experts. The measures are also directly comparable to the corporate reputation ones. This latter point is important because these constructs are highly correlated. The measures’ comparability puts the analysis in good position to use the limited cross-measure variance to test our hypotheses (particularly H2). Finally, we note that while the managerial reputation item is included in the corporate reputation measure, we also performed supplementary analyses (reported below) to assess robustness and further discriminate between the various items on the Fortune survey.

**Independent Variables.** Our core independent variable, *Poison Pill*, is a dichotomous, annual measure set to one if a firm had a poison pill announced or in force during the relevant year.² For example, if a firm adopted a poison pill in June 1987, this variable would be zero for 1985 and 1986, and one for 1987, 1988, and 1989 (assuming that the poison pill remained in force during the later years, as would be typical). This measure is consistent with our conceptualization of poison pills as an ongoing governance arrangement that amounts to a characteristic of the firm. We used IRRC-provided dates to determine the value of this variable, following Davis (1991).

² We took the timing of the *Fortune* survey itself into account in structuring our analyses. This survey is mailed out late in the calendar year (October or November), and results are published early the next year. Thus, we considered a firm to have a poison pill for a given year if the pill was in force or had been publicly reported by the end of November of that year. Financial performance measures were similarly constructed using the four quarters prior to the survey process, rather than using calendar-year or fiscal-year boundaries.
Hypothesis 4 posits that the use of a poison pill will be associated with a more negative reputational effect late in the study period, and is tested using the interaction term *Poison Pill * \textit{Early}. \textit{Early} is constructed as a dichotomous variable set to one for years 1985 and 1986, and zero for years 1987 and later. This breakpoint is based on the empirical rate of adoption, which showed a sharp peak in 1986 with over 70 firms in our sample initiating use of poison pills during this year, (see Figure 1) and then a relatively stable but lower rate of adoption in subsequent years.

To test H5, which posits that the effects of poison pills will be of larger magnitude (positive or negative) for highly visible firms, we used the interaction term *Poison Pill * \textit{Visibility}. The number of stock analysts covering firms varies widely and tends to fluctuate with the firm’s general prominence within the financial and corporate community (Pollock & Gulati, 2007; Rao, Greve, & Davis, 2001). As such, we measured \textit{Visibility} as the mean number of stock analysts covering the firm during year t-1. The overall number of analysts covering firms also increased substantially over the study period. In order to isolate the effect of an individual firm’s visibility and avoid conflating this effect with the general trend towards greater numbers of analysts, we re-expressed this variable as a deviation from the overall sample mean in each year. Thus, the resultant measure reflects the firm’s visibility relative to other firms in the sample during the appropriate year.

H6 offers alternative predictions concerning how firms with strong performance will be rated differently in the presence of a poison pill than low-performing firms will be. It is tested using the interaction term *Poison Pill * \textit{Profitability}, where \textit{Profitability} is the return on book
assets in the relevant year. We centered this variable by subtracting its mean value across the full sample. While centering does not substantively affect the interaction term’s significance, it does facilitate interpretation of the findings (Jaccard, Turrisi, & Wan, 1990).

**Control Variables.** We included multiple measures of financial performance to help isolate their known effects on corporate reputation (Fombrun & Shanley, 1990) from those of poison pills. Consequently, the analyses can be taken to estimate the impact of poison pills on reputation beyond their effects on financial performance. This aligns well with our interest in the symbolism associated with poison pills. Profitability is the return on book assets for the current year, and Sales (log) is the logged sales for the current year. Contemporaneous Profit Change, Sales Change, and Market Value Change are (respectively), the change in return on book assets, the change in sales, and the change in the market value of equity, all measured from the prior year (t-1) to the current year (t). ³ We also include Visibility in all models as a further control. Visibility and Profitability function as base terms for interactions in the relevant models. Finally, we include year and industry dummies (using Fortune’s industry categories, which have good face validity and appear to be between SIC2 and SIC3 measures in granularity).

**Analysis**

We report analyses that use generalized-least-square (GLS) cross-sectional time series regression (xtgls in STATA), modeling first-order autocorrelation in the error terms and correcting for potential heteroscedasticity. Cross-sectional time-series regression is appropriate for panel data analysis with a continuous dependent variable such as that examined here (Hsiao, 1986). GLS models are also advantageous because they allow for autocorrelation in error terms. This is ideal for a construct like corporate reputation, where persistent firm-level effects clearly

³ These measures of contemporaneous performance change were calculated across the twelve-month period preceding Fortune’s fall survey in order maintain temporal alignment with the dependent variable.
exist but those effects may also change over time (for example, IBM was perceived as a model of
the well-managed firm in the 80s but faltered and was dismissed as an unresponsive bureaucracy
in the early 90s). Indeed, the estimated year-to-year error correlation was between .4 and .6 in
the analyses presented below. This is far too high to ignore, but also too low to justify assuming
stable firm-specific effects over the five-year study period.

RESULTS

Table 1 displays descriptive statistics and a correlation matrix for all of the variables. The four dependent measures are highly correlated, as expected. Much of this correlation can be
attributed to the influence of financial performance on these audiences’ reputational assessments
(Brown & Perry, 1994; Fryxell & Wang, 1994), and on evaluators’ tendency to attribute firm
outcomes to managerial actions (Graffin et al., 2012; Meindl et al., 1985). There is some cross-
measure variance, however, and our hypotheses (particularly H2 and H3) posit that use of poison
pills is responsible for a portion of it. We also note that the high correlations do not raise
concerns of unstable or biased parameter estimates due to multicollinearity, as the variables are
dependent rather than independent ones and also are never used in the same model together.

Table 2 presents models that test H1 through H3. In each model, the Poison Pill
coefficient estimates the main effect of poison pills for a different dependent reputation measure
(as labeled along the top of the table). The main analysis is contained in the first four models,
for which the dependent variables are Corporate Reputation – Analysts (2A), Corporate
Reputation – Executives (2B), Managerial Reputation – Analysts (2C), and Managerial
Reputation – Executives (2D), respectively. The coefficient for Poison Pill is negative and
significant in all four models (though only marginally so in model 2A), providing broad support for H1’s prediction that reputations will be lower at firms with poison pills. To provide a sense of the effect size, consider that *Fortune* ranks firms in each industry according to their reputation ratings, and the mean rating difference between consecutively ranked firms in these league tables is approximately .32 points. The *Poison Pill* coefficients in these models indicate the expected rating loss, which varies from -.049 to -.122. Poison pills thus appear to cost a firm up to one-third of a ranking in the league tables – a modest effect, but one that has to be considered in light of the fact this is just one governance practice and the measure is an assessment of the entire corporation.

The four models provide weak support for H2, that managerial reputations will suffer more than corporate ones in the presence of a poison pill. In particular, for analysts the *Poison Pill* coefficient is only marginally significant for model 2A (corporate reputation – analysts) but it is highly significant for model 2C (managerial reputation – analysts). Comparison of the two models shows the coefficients are different at p<.10 (one-tailed) in the expected direction (Cohen, 1983). However, the difference across the executive-respondent models (2B and 2D) is not significant even though it is in the expected direction.

The four models provide no support for H3, which predicted a weaker negative effect when the evaluators are fellow executives. The coefficients for *Poison Pill* are not significantly different between corresponding models for analyst evaluators and peer firm evaluators (i.e., Models 2A vs. 2B, and 2C vs. 2D).

Given the suggestive pattern of results regarding H2 in particular, we performed supplemental analyses, which are presented as the last four models in Table 2. Specifically, we

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4 Throughout the paper, we followed the procedure outlined by Cohen (1983: 84) to test for statistically significant differences between coefficients.
categorized the *Fortune* survey items into financial and organizational groups and constructed additional dependent measures for each. We were guided by prior research (Szwajkowski & Figlewicz, 1997), which has noted that three items in the Fortune survey are specifically financial in nature. We grouped these items together by taking the mean of financial soundness, value as a long-term investment, and wise use of corporate assets for each respondent group, labeling the resultant measure Financial Items - Analyst and Financial Items - Executive. We then created a second measure that reflects the remaining four items, which capture more organizational characteristics of the firm. The mean of the items product quality; innovativeness; ability to attract, develop and retain personnel; and community and environmental responsibility is taken to similarly create the variables Organizational Items – Analyst and Organizational Items - Executive. We did not include the managerial quality item in either of these new measures, instead keeping it separate as in Models 2C & 2D.

Models using the supplemental dependent measures are presented in Models 2E through 2H. The models show an interesting overall pattern, which is graphically illustrated in Figure 2. The largest effects are seen for the management quality dependent measure (2C & 2D). The effects for the financial items are somewhat smaller (2E & 2F), and the organizational items are smaller yet (2G & 2H). Indeed, the effect for poison pills loses significance entirely for the organizational items when judged by analysts (2G, at -.027), and the coefficients for Poison Pill from the organizational items are significantly smaller than those for the corresponding managerial reputation models (p<.05, model 2C vs. 2G, and p<.10, model 2D vs. 2H).

The supplemental analyses thus provide more compelling support for H2’s prediction that managerial reputations will suffer more than that of the corporation in the presence of poison pills. The pattern of results also suggests an explanation for the perhaps unexpectedly small
effect of poison pills on the overall measure for analysts (Model 2A). Analysts apparently weight poison pills relatively heavily in their assessments of management quality, but this judgment does not extend across the full range of their reputational assessments of the firm.

Table 3 tests the contingency hypotheses H4-H6 for corporate reputation (Table 4 does so for managerial reputation). The models are arranged in four pairs, with each pair estimating effects for securities analysts and for executives in turn. Models 3A and 3B (duplicated from Table 2) show the main effect of poison pills to facilitate comparisons. Each of the contingency hypotheses receives some support. Models 3C and 3D show that the interaction term Poison Pill * Early is significant in the expected direction for executives, though not for analysts. This provides partial support for H4a, which predicted that poison pills would have a greater negative effect on reputation over time. Models 3E and 3F show a significant negative interaction between firm visibility and poison pills for both executives and analysts, supportive of H5’s prediction that poison pills would be most damaging for highly visible firms. Models 3G and 3H provide partial support for H6b, which predicted that high performing firms would experience more reputational damage from poison pills. There is a significant negative interaction for analysts but not for executives.

Table 4 is identical to table 3 except it shows results for managerial reputations. The first pair of models (4A and 4B) again duplicate the corresponding main-effect models (2C and 2D) to facilitate comparisons. The results are (unsurprisingly) quite similar to those in Table 3, with all contingency hypotheses again receiving some support. The second pair of models (4C and 4D) present the results for the interaction term Poison Pill * Early. The coefficient is positive in
both models but is significant only in model 4D for executives (p<.001), providing partial
support for H4a, that poison pills have a larger negative reputational impact over time. The lack
of a significant result for analysts may occur because their reactions were negative from the start,
whereas executives were initially ambivalent.

Model 4E shows a significant (p < .05) interaction between firm visibility and poison
pills, which provides evidence for Hypothesis 5’s prediction that poison pills would have a
greater impact on reputational assessments of highly-visible firms. The magnitude of this effect
is quite substantial. A poison pill at a firm with visibility one standard deviation higher than the
mean is expected to have a reputational impact 80% larger (i.e., more negative) than it would at a
firm with mean visibility, whereas a firm with visibility one standard deviation lower than the
mean would experience a negligible (80% reduced) penalty. Model 4G provides support for
H6b, that poison pills will have a more (negative) reputational impact for high performing firms.
The support for H5 and H6b is partial, as the corresponding models for executives’ assessments
(4F and 4H) do not show significant moderating effects of visibility and performance.

DISCUSSION

This study theoretically developed and empirically tested a perspective on how corporate
governance arrangements affect organizational and managerial reputations. We explained how
governance arrangements are likely to impact reputational evaluations not only because these
arrangements tend to mediate the interests of various parties, but also because they are laden with
symbolic meaning that is derived from their alignment (or lack thereof) with the broader
institutional context and their potential to evoke character attributions of a firm and its managers.

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5 The mean visibility firm’s expected loss from having a poison pill is simply the -.109 main effect coefficient in this
model, as visibility is centered. The higher-visibility firm’s expected effect is -.109 + -.027 * 3.27 = -.197, whereas
the low-visibility firm’s would be only -.021 by a similar calculation.
We proposed that governance arrangements would be especially likely to influence the reputation of the firms’ managers, and that the implications of governance arrangements could vary depending on which social group ascribes reputation. We also posited that the reputational impact of governance arrangements would vary over time and with firm characteristics. We employed these theoretical arguments to develop and test hypotheses about how a specific, well-known governance arrangement (i.e. poison pills) would impact the reputation of a firm and its managers. The findings generally offered support for all hypotheses, with one exception (poison pills’ reputational impact was largely similar across evaluating social groups).

The study’s core finding is of course that reputational assessments of firms and their managers were on average more negative in the presence of poison pills. While this finding is intuitive, it could not be taken for granted. The finding indicates that specific governance arrangements can stand out within the dense stream of potentially reputation-relevant signals generated by a firms’ behaviors and outcomes (Schultz, Mouritsen, & Gabrielsen, 2001), and that they can do so enough to alter evaluators’ *gestalt* perceptions of the entire corporation. Moreover, this effect remained even after multiple measures of the firm’s financial performance were accounted for. The observed reputational implications of this governance device thus appear to be driven by reputational evaluators’ interpretations of its more symbolic meaning and content, rather than being mediated by its consequences for firm performance.

We also proposed that governance arrangements would reflect back more strongly on reputational evaluations of the firms’ management than they do on evaluations of the firm itself. The analyses (particularly as shown on Figure 2) provided evidence for this proposition, though we note that supplemental analyses were required to reveal a clear pattern. The finding is particularly interesting because it speaks to the idea that governance choices are seen to reveal
managers’ values and character (Hirsch, 1986). It is also interesting in light of the upper echelon perspective’s foundational claim that firms are a reflection of their managers (Hambrick & Mason, 1984). Our study suggests that in turn, managers are evaluated (in part) as a reflection of the governance practices that they implement.

A second distinctive feature of governance practices is that they mediate the interests of different social groups, and so we proposed potential differences between evaluating groups. Surprisingly, we found that on average, there were only relatively minor differences between the impact of poison pills on analysts’ and peer firm executives’ reputational assessments. Indeed, poison pills’ alignment with managers’ interests was not accompanied by reputational benefits even when the evaluators were executives at other firms in the same industry (many of whom likely had implemented poison pills at their own firms!). While the findings are not as expected, their implications may be more powerful in consequence. They suggest that scholars cannot assume that reputational evaluators’ assessments of governance arrangements simply reflect the interests of their particular social group. Instead, the findings are consistent with more universal considerations such as revealed character having a substantial effect on such evaluations. Even if poison pills served manager’s interests at a particular firm, executives at other firms may have looked askance because of what the practice appeared to say about their peers’ values. Symbolic conformity with institutional logics also appeared to play a role, as we discuss further in the next paragraph. Overall, we believe that understanding how and when reputational evaluations converge with or diverge from evaluating groups’ interests is one of the more interesting avenues for further research to explore.

The final plank of our proposed theoretical perspective was that governance practices’ reputational impacts will depend on key contingencies and thus will differ over time and between
firms. The findings provide strong support for this general idea. The observed general trend among executives toward more negative evaluations of firms and managers with poison pills over time may indicate that executives increasingly bought into the agency logic of governance during this time period, and again suggests the importance of looking beyond interests (which are typically considered to be relatively invariant over time) in considering the reputational impact of governance arrangements. The hardening of negative reactions in the face of widespread adoption further suggests, contrary to some other research (e.g., Ahmadjian and Robinson, 2001), that there may be limits to the “safety in numbers” effect in which organizations that adopt a practice after it is apparently well-established suffer smaller reputational penalties. We also found evidence that firm characteristics – specifically firm visibility and performance - mattered. The visibility result emphasizes that governance choices will be reputationally consequential only to the extent that evaluators know and care about the firm, so that less visible firms may be able to “get away with” the use of controversial governance devices, whereas more visible firms’ use of them is likely be heavily scrutinized to the detriment of their reputation. The performance result indicates that high performance, far from providing a buffer to managers who engage in self-protective actions (cf. Jones, Jones & Little, 2000), may instead shape reputational evaluators’ expectations such that they are surprised by such actions and so react more negatively to them (consistent with an expectancy violation rationale, cf. Rhee and Haunschild, 2006).

Stepping back, we believe that our study contains several broader implications for governance and reputational research. First, it provides evidence that governance arrangements send meaningful and multifaceted signals that are reflected in reputational assessments of the firm and its managers. While the governance literature has focused predominantly on the
financial performance implications of governance arrangements, this study provides direct evidence that governance choices also affect intangible (but economically consequential) social approval assets. The findings suggest that these effects, at least in part, occur because governance arrangements are truly symbolic: they provide meaning beyond the substantive effects of the practice itself (Zott & Huy, 2007) and may evoke strong character attributions. Consistent with this idea, poison pills seemed to reflect more on the reputations of a firm’s managers than on that of the firm itself. Relatedly, the findings suggest that to understand the reputational implications of governance choices, researchers may need to look beyond economic interests. The need to do so is seen in the fact that even while poison pills served managers’ interests, peer firm executives apparently assessed reputational penalties on firms and managers who used the practice. The reputational consequences of governance emerge as an important aspect of organizational performance (or “well-being”) for governance scholars that could complement existing work that focuses more on financial performance. We believe that further work exploring the relationship between governance and reputation is especially promising given the difficulty in uncovering a direct link between certain governance arrangements and financial performance (Bhagat & Black, 2002; Dalton et al., 1998).

While we have emphasized governance research so far, we believe the study also has implications for scholarship on organizational reputation. First, it highlights governance practices as a previously unexamined source of influence on the construction of corporate reputation. The study suggests that these practices have distinctive characteristics, and may have a distinctive capacity to provide insight into the processes underlying reputational judgments. The study is one of the first to jointly investigate the differential effects of an organization’s behaviors on corporate as well as managerial reputation. The finding that governance practices
have a greater influence on managerial reputations suggests value in future research that investigates how reputational signals affect individuals (such as executives) vs. the company as a whole. The negative assessments of managers at firms with poison pills also lend additional evidence to the view that reputational evaluators often make strong character attributions (see Love and Kraatz 2009 for another example). This result suggests that simply looking at interest and outcome based sources of reputation may not always be enough to explain such evaluations.

Finally, our study lends insight into institutional research on poison pills specifically and diffusion more broadly. Past research has shown that poison pills diffused quickly through the director interlock network (Davis, 1991) and has attributed this rapid spread, in part, to the availability of accounts that legitimated these measures to executives and board members (i.e., protecting the firm’s integrity as well as non-shareholder stakeholders, fending off “outsiders”). Taken together with this prior work, our findings suggest that the legitimate standing of a controversial governance practice should not be assumed to be aligned with its reputational implications, even in the eyes of those adopting the practice. The fact that the practice was widely adopted suggests that symbolic meanings and subsequent reputational penalties were not sufficient to overcome the interests of executives, which appear to have been a driving force in the adoption of poison pills. It is readily apparent that individual interests play a powerful role in motivating firm actions, even actions that are widely perceived in a negative light. It may be the case that powerful actors (e.g., executives in this case), continue to adopt controversial practices when they judge the potential hit to their reputation to be less costly than the potential adverse effects of not adopting the practice. On the other hand, a number of firms did not adopt poison pills during our sample period, and adoption never became near-universal. This may be evidence of the conflicting pressures that executives appear to have faced where this practice is concerned.
Such an explanation extends, but is consistent with, prior research on the spread of other controversial governance practices such as option re-pricing (Pollock, Fischer, & Wade, 2002).

While we have attempted to make a first step in exploring the relationship between corporate governance and corporate reputation, we believe that there are ample opportunities for additional work in this area. For example, this study only looked at one specific governance practice over a relatively short time period. Governance is an expansive domain, and so there is a great deal of room for future research to explore the impact of a wide range of governance arrangements on corporate reputation or on other social evaluations. For example, poison pills were (and still are) quite controversial and are generally seen as an instance of poor governance. Future research could explore whether the arguments advanced here also hold for practices that are seen to represent good governance. Because firms do not adopt governance practices in isolation, it would also be useful to see how multiple governance practices interact, either as complements or substitutes, in effecting social evaluations. We hope this study helps to generate ideas for and inspires future research in this vein.
Figure 1: Firms with Poison Pills from 1985-1989

Figure 2: Poison Pill Impact on Fortune Survey Items
<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
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<tbody>
<tr>
<td>1 Corporate Reputation - Analysts</td>
<td>6.27</td>
<td>1.02</td>
<td>1.00</td>
<td></td>
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<td></td>
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<tr>
<td>2 Corporate Reputation - Executives</td>
<td>6.44</td>
<td>0.89</td>
<td>0.85</td>
<td>1.00</td>
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<td></td>
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<tr>
<td>3 Managerial Reputation - Analysts</td>
<td>6.44</td>
<td>1.23</td>
<td>0.93</td>
<td>0.78</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>4 Managerial Reputation - Executives</td>
<td>6.7</td>
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<td>0.82</td>
<td>0.95</td>
<td>0.83</td>
<td>1.00</td>
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<td>5 Financial Items - Analysts</td>
<td>6.18</td>
<td>1.18</td>
<td>0.98</td>
<td>0.83</td>
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<td>6 Financial Items - Executives</td>
<td>6.36</td>
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<td>0.97</td>
<td>0.79</td>
<td>0.91</td>
<td>0.87</td>
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<td>7 Organizational Items - Analysts</td>
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<td>0.9</td>
<td>0.97</td>
<td>0.82</td>
<td>0.87</td>
<td>0.77</td>
<td>0.91</td>
<td>0.79</td>
<td>1.00</td>
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<td>8 Organizational Items - Executives</td>
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<td>0.8</td>
<td>0.78</td>
<td>0.97</td>
<td>0.70</td>
<td>0.89</td>
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<td>9 Poison Pill</td>
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<td>0.48</td>
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<td>-0.09</td>
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<td>-0.10</td>
<td>-0.06</td>
<td>-0.10</td>
<td>-0.02</td>
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<td>10 Sales (log)</td>
<td>8.43</td>
<td>1.11</td>
<td>0.12</td>
<td>0.19</td>
<td>0.06</td>
<td>0.11</td>
<td>0.12</td>
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<td>11 Profit</td>
<td>5.16</td>
<td>5.22</td>
<td>0.54</td>
<td>0.52</td>
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<td></td>
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<tr>
<td>9 Poison Pill</td>
<td>-0.07</td>
<td>1.00</td>
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<td>10 Sales (log)</td>
<td>0.20</td>
<td>0.03</td>
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<td>11 Profit</td>
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<td>0.02</td>
<td>-0.12</td>
<td>1.00</td>
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<td>12 Profit Change</td>
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<td>0.06</td>
<td>-0.02</td>
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<tr>
<td>13 Change in Sales</td>
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<td>0.02</td>
<td>0.04</td>
<td>0.23</td>
<td>0.1561</td>
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<tr>
<td>14 Market Value Change</td>
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<td>-0.05</td>
<td>-0.01</td>
<td>0.16</td>
<td>0.1584</td>
<td>0.15</td>
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<td>15 Firm Visibility</td>
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<td>0.59</td>
<td>0.10</td>
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N = 1185
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<td>Financial Items - Analysts</td>
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<td>4.437***</td>
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<td>0.188***</td>
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<tr>
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<td>0.120***</td>
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<td>(0.005)</td>
<td>(0.005)</td>
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<tr>
<td>Profit Change</td>
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<td>-0.049***</td>
</tr>
<tr>
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<td>(0.004)</td>
</tr>
<tr>
<td>Change in Sales</td>
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<td>0.006***</td>
</tr>
<tr>
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<td>(0.001)</td>
<td>(0.001)</td>
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<tr>
<td>Market Value Change</td>
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<td>0.288***</td>
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<tr>
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<td>(0.036)</td>
<td>(0.044)</td>
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<tr>
<td>Firm Visibility</td>
<td>0.058***</td>
<td>0.064***</td>
</tr>
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<td>(0.007)</td>
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<td>-0.049+</td>
<td>-0.077*</td>
</tr>
<tr>
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<td>(0.038)</td>
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+ p<0.10, * p<0.05, ** p<0.01, *** p<0.001. One-tailed tests where directional hypothesis made, two-tailed test otherwise.
TABLE 3: Influence of Poison Pills on Reputational Assessments of Corporate Reputation

<table>
<thead>
<tr>
<th></th>
<th>3A Main Effect Analyst</th>
<th>3B Main Effect Executive</th>
<th>3C Early/Late Analyst</th>
<th>3D Early/Late Executive</th>
<th>3E Visibility Analyst</th>
<th>3F Visibility Executive</th>
<th>3G Performance Analyst</th>
<th>3H Performance Executive</th>
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<tr>
<td>Sales (log)</td>
<td>0.174***</td>
<td>0.370***</td>
<td>0.174***</td>
<td>0.375***</td>
<td>0.167***</td>
<td>0.369***</td>
<td>0.164***</td>
<td>0.371***</td>
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<td>Profit</td>
<td>0.091***</td>
<td>0.081***</td>
<td>0.091***</td>
<td>0.092***</td>
<td>0.083***</td>
<td>0.091***</td>
<td>0.081***</td>
<td>0.081***</td>
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<tr>
<td>Profit Change</td>
<td>-0.036***</td>
<td>-0.033***</td>
<td>-0.036***</td>
<td>-0.036***</td>
<td>-0.037***</td>
<td>-0.034***</td>
<td>-0.039***</td>
<td>-0.032***</td>
</tr>
<tr>
<td>Change in Sales</td>
<td>0.005***</td>
<td>0.002**</td>
<td>0.005***</td>
<td>0.003***</td>
<td>0.005***</td>
<td>0.002***</td>
<td>0.005***</td>
<td>0.002**</td>
</tr>
<tr>
<td>Market Value Change</td>
<td>0.147***</td>
<td>0.039</td>
<td>0.149***</td>
<td>0.059*</td>
<td>0.155***</td>
<td>0.047</td>
<td>0.144***</td>
<td>0.04</td>
</tr>
<tr>
<td>Firm Visibility</td>
<td>0.058***</td>
<td>0.046***</td>
<td>0.058***</td>
<td>0.053***</td>
<td>0.067***</td>
<td>0.056***</td>
<td>0.056***</td>
<td>0.046***</td>
</tr>
<tr>
<td>Poison Pill</td>
<td>-0.049+</td>
<td>-0.069**</td>
<td>-0.067+</td>
<td>-0.132***</td>
<td>-0.049</td>
<td>-0.070**</td>
<td>0.058</td>
<td>-0.090**</td>
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<td>Poison Pill X Early</td>
<td>0.05</td>
<td>0.138***</td>
<td>0.05</td>
<td>0.03</td>
<td>0.033</td>
<td>0.027</td>
<td>0.044</td>
<td>0.035</td>
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<tr>
<td>Poison Pill X Visibility</td>
<td>-0.019**</td>
<td>-0.015*</td>
<td>-0.019**</td>
<td>-0.015*</td>
<td>-0.017**</td>
<td>0.004</td>
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<td>0.004</td>
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<tr>
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</tbody>
</table>

+ p<0.10, * p<0.05, ** p<0.01, *** p<0.001. One-tailed tests where directional hypothesis made, two-tailed test otherwise.
**TABLE 4: Influence of Poison Pills on Reputational Assessments of Managerial Reputation**

<table>
<thead>
<tr>
<th></th>
<th>4A (Main Effect Analyst)</th>
<th>4B (Main Effect Executive)</th>
<th>4C (Early/Late Analyst)</th>
<th>4D (Early/Late Executive)</th>
<th>4E (Visibility Analyst)</th>
<th>4F (Visibility Executive)</th>
<th>4G (Performance Analyst)</th>
<th>4H (Performance Executive)</th>
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</thead>
<tbody>
<tr>
<td>Constant</td>
<td>4.065***</td>
<td>2.899***</td>
<td>4.096***</td>
<td>2.968***</td>
<td>4.169***</td>
<td>3.011***</td>
<td>4.037***</td>
<td>2.904***</td>
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<tr>
<td></td>
<td>(0.347)</td>
<td>(0.269)</td>
<td>(0.344)</td>
<td>(0.273)</td>
<td>(0.367)</td>
<td>(0.29)</td>
<td>(0.344)</td>
<td>(0.27)</td>
</tr>
<tr>
<td>Sales (log)</td>
<td>0.207***</td>
<td>0.374***</td>
<td>0.204***</td>
<td>0.371***</td>
<td>0.200***</td>
<td>0.365***</td>
<td>0.207***</td>
<td>0.374***</td>
</tr>
<tr>
<td></td>
<td>(0.036)</td>
<td>(0.028)</td>
<td>(0.036)</td>
<td>(0.028)</td>
<td>(0.038)</td>
<td>(0.03)</td>
<td>(0.036)</td>
<td>(0.028)</td>
</tr>
<tr>
<td>Profit</td>
<td>0.129***</td>
<td>0.095***</td>
<td>0.129***</td>
<td>0.091***</td>
<td>0.126***</td>
<td>0.090***</td>
<td>0.135***</td>
<td>0.094***</td>
</tr>
<tr>
<td></td>
<td>(0.006)</td>
<td>(0.004)</td>
<td>(0.006)</td>
<td>(0.004)</td>
<td>(0.006)</td>
<td>(0.004)</td>
<td>(0.006)</td>
<td>(0.004)</td>
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<tr>
<td>Profit Change</td>
<td>-0.058***</td>
<td>-0.037***</td>
<td>-0.059***</td>
<td>-0.036***</td>
<td>-0.057***</td>
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<td>(0.003)</td>
<td>(0.005)</td>
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<td>(0.005)</td>
<td>(0.003)</td>
<td>(0.005)</td>
<td>(0.004)</td>
</tr>
<tr>
<td>Change in Sales</td>
<td>0.006***</td>
<td>0.003***</td>
<td>0.006***</td>
<td>0.003***</td>
<td>0.006***</td>
<td>0.003***</td>
<td>0.006***</td>
<td>0.003***</td>
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<tr>
<td></td>
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<td>(0.001)</td>
<td>(0.001)</td>
<td>(0.001)</td>
<td>(0.001)</td>
<td>(0.001)</td>
<td>(0.001)</td>
<td>(0.001)</td>
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<td>Market Value Change</td>
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<td>0.039</td>
<td>0.232***</td>
<td>0.035</td>
<td>0.224***</td>
<td>0.026</td>
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<tr>
<td></td>
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<td>(0.052)</td>
<td>(0.032)</td>
<td>(0.048)</td>
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<td>(0.034)</td>
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<tr>
<td>Firm Visibility</td>
<td>0.068***</td>
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<td>0.069***</td>
<td>0.040***</td>
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<td>(0.006)</td>
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<td>(0.006)</td>
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<td>Poison Pill X Visibility</td>
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*p<0.10, **p<0.05, ***p<0.01, **p<0.001. One-tailed tests where directional hypothesis made, two-tailed test otherwise.
REFERENCES


