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**HOW GOLDEN PARACHUTES UNFOLDED:  
DIFFUSION AND VARIATION OF A CONTROVERSIAL PRACTICE\***

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**ABSTRACT**

We contribute to a growing focus on variation in diffusion processes by examining the ways in which contested practices are modified as they spread among adopters. Expanding on prior diffusion accounts, we argue that the extensiveness and similarity of a practice will vary in response to both population- and organization-level mechanisms. To examine these issues, we study variation in “golden parachute” contracts, a controversial corporate governance practice that emerged and spread widely during the hostile takeover wave of the 1980s. Using a concept network approach to analyze the composition of parachute plans, we find evidence of mechanisms that both increase and decrease extensiveness and variation of golden parachutes. Our findings hold implications for accounts of practice diffusion over contested terrain by revealing substantial variation in the course of diffusion.

Recent work on the diffusion of organizational practices has revealed a growing interest in the ways in which corporate practices are modified during the diffusion process (e.g., Ansari, Fiss, & Zajac 2010; Djelic 1998; Westphal, Gulati, & Shortell 1997). Such a focus on practice variation carries considerable promise for advancing our understanding of diffusion processes, as it redirects the study of diffusion toward finer-grained mechanisms that create heterogeneity among organizational populations (Lounsbury 2007). Understanding how practices vary allows insights into both the relations between actors and the nature of the practice itself (Ansari et al. 2010). As an essential aspect of the implementation process, the emergence of practice variation is likely to be the rule, not the exception (Rice & Rogers 1980, Johnson & Rice 1987). Yet, as Campbell (2005) points out, most diffusion stories assume that practices are adopted uncritically and *in toto*, and thus they pay little or no attention to how practices are modified as they diffuse. If diffusion is to be more than a “mindless mechanical transfer of information from one place to another” (Campbell 2005: 55), then we need to explore how diffusion affects practices.

To accomplish this goal, it is helpful to consider the nature of the practice in relation to its adoption environment. While many prior diffusion studies have examined situations in which practices are adopted uncritically, several recent studies have pointed to the importance of examining diffusion as a contested process (e.g., Fiss & Zajac 2004; Schneiberg & Soule 2005; Sanders & Tuschke 2007). For instance, Ingram & Rao (2004: 448) have argued that extant research has either emphasized political contestation or the diffusion of practices “without jointly considering their interdependencies.” Furthermore, prior work has tended to overlook the multilevel character of such contests (Ingram & Rao 2004; Schneiberg & Soule 2005). Yet, practice variation is likely to be affected by processes occurring at both the population and organization level (Ansari et al. 2010). As such, the diffusion of contested practices presents an appealing yet largely uncharted context for understanding practice variation.

Toward an understanding of the role of practice variation in contested diffusion, we study patterns of practice variation in the spread of the “golden parachute,” a controversial contract that provides compensation to top executives in the event that the firm they run is taken over. Golden

parachutes generated intense debate among shareholders, policy makers, and scholars. More recently, they have become controversial again as the U.S. government has assumed the role of executive paymaster for companies it rescued in 2008. This is particularly interesting since golden parachutes had diffused to a substantial majority of the U.S. Fortune 500 companies by the late 1980s. As golden parachutes diffused, contract features varied widely both among firms and over time, indicating that adoption was accompanied by considerable variation in implementation. The golden parachute is therefore a particularly attractive site for research because it provides an opportunity to examine how practices vary across the course of the diffusion process in response to both population- and organization-level mechanisms.

We take a twofold approach to examining patterns of practice variation. First, following a recent framework for analyzing practice variation (Ansari et al., 2010), we theorize the causes and consequences of practice extensiveness and similarity during the course of diffusion. Second, we develop a concept network approach to more clearly understand which elements of golden parachutes are central versus more peripheral to what the practice came to mean. By constructing co-occurrence matrices of practice elements, we are able to employ network visualization techniques to explore the relational structure of parachute elements and further examine how this structure changed over time. Together, these approaches allow us to conduct a fine-grained analysis of how golden parachute plans vary across the diffusion process as well as to develop hypotheses related to the population- and organization-level influences that affect both heterogeneity and homogeneity in the implementation of this practice.

### **THE CASE OF GOLDEN PARACHUTES**

American executive pay practices were the subject of increasing public scrutiny during the 1980s. Until then, large pay packages—and particularly those that paid more than \$10 million in a single year—were a rare exception for chief executives of non-financial institutions (Blair 1994). However, over the

next two decades, the average compensation of U.S. top executives increased about six fold, making American CEOs the most highly paid managers in the world.

Among the most contested aspects of CEO compensation was the diffusion of the “golden parachute,” the high-profile severance packages that emerged in the late 1970s among a handful of firms. With the 1980s hostile takeover wave, this practice spread rapidly. By the late 1980s, the majority of large public corporations in the United States had golden parachute contracts for their most senior executives. In the event that their companies were acquired, these contracts contained clauses that provided executives with cash payments, accelerated stock option vesting, continued health insurance, retirement plan eligibility, and the like. The most typical form provided a lump-sum payment of three years’ salary in the event that the executive’s employment ended following a “change in control” (usually a takeover).

The spread of golden parachutes among the top strata of American firms is quite remarkable. By 1981, some 15% of the 250 largest U.S. corporations had such plans in place, covering about one third of the management contracts of those firms. By 1986, this number had grown to about 33%, while smaller companies adopted parachutes in even greater numbers. By the late 1980s, golden parachutes had become part of the compensation program of the majority of large American corporations. The context of this successful diffusion of parachutes is the acquisitions wave of the 1980s, which was precipitated by a confluence of several factors, including high inflation and depressed stock prices, thus making it attractive for firms to buy assets instead of building them by means of organic growth. This wave of takeovers and mergers, and particularly the period from 1984–89, introduced hitherto unprecedented levels of uncertainty into the life of America’s top managers. While smaller corporations had always been at a higher risk of acquisition, the largest U.S. firms had by and large felt protected from being taken over. However, with the emergence of high-yield (“junk”) bonds as a way to finance the acquisition of Fortune 500 firms, top managers of even these blue chip firms had good reason to be concerned about their positions. This concern was enhanced by a series of high-profile cases in which top executives—and even those who had previously performed well—were fired immediately following their firm’s acquisition.

The result was “a fair amount of terror in executive suites” (Nossiter 1982). This terror was not wholly unfounded. A study by consultancy Ward Howell that circulated among board members indicated that most CEOs of acquired companies occupied positions of significantly reduced responsibility within a few years of being acquired, with most former CEOs placing not even among the 20 highest-paid officers of the acquiring firm (Dwyer 1983). With CEOs taking an average of 23 years to ascend to the top of the corporate ladder, the notion of losing control and status after years of toil presented a considerable threat to earning prospects, career options, and even self esteem. As a response to these new uncertainties, top executives and corporate boards quickly embraced golden parachutes, spurring the diffusion of this practice. Consequently, golden parachutes became an expected element of senior executive compensation. As a merger broker stated, “Executives are saying: If you can’t protect my power, then at least protect my wallet” (Kleinfield 1982).

Agreements could vary tremendously. Although the term “golden parachute” implies a single coherent entity, 1980s change-in-control contracts varied greatly in practice along a number of dimensions. For instance, while some parachutes covered only the CEO and perhaps a handful of the most senior executives, others came to include dozens of managers, such as the parachute of AMF, which protected “28 officers holding the rank of corporate vice-president or higher,” up to the example of Beneficial Corporation, which implemented a plan covering some 500 employees and providing them with three years’ salary in the event of a hostile takeover. Such variation is even more common today.

Likewise, parachutes differed in terms of what benefits they provided. Some included only a lump sum cash payment, while others extended to stock grants, options, health insurance, pension plans, consultancy arrangements, the payment of legal fees, and use of the corporate jet. There was also considerable variation in what events could trigger a parachute. Some parachutes not only protected against being laid off by the new management but also against substantive changes of the executives’ duties, such as a significant reduction of their authority, forced transfers, or oppressive travel schedules. Going even further, Superior Oil’s parachute allowed covered executives to quit for any reason except

death, disability, willful misconduct, or normal retirement. Finally, parachutes also differed in terms of the reasons given for their adoption—whether as a device to retain key employees, a means to align the incentives of executives with those of shareholders in a takeover situation, or a strategy for preventing takeovers entirely by making them particularly costly to the acquirer.

To illustrate the variation in golden parachute provisions, consider the following examples.

Hammermill Paper, one of the earliest adopters in 1976, covered the CEO and five other members of the top executive team in its early parachute:

Each of Messrs. Duval, Herbutzheimer, Kilgore, Leslie, Stolley and Volanakis has an agreement with the Company providing that, if *a change of control* of the company occurs while he is an employee of the Company, his *employment by the Company shall continue for at least three years* at an annual rate of compensation equal to his total compensation for 12 months preceding the change of control. (Hammermill Paper 1980; italics added).

This early parachute is an example of the simple “bare-bones” type, providing payment of the salary only with no further benefits or elaborating provisions. It is also fairly limited in covering only six top executives, although some other parachutes were even more restrictive and covered only the CEO.

In contrast to this fairly simple parachute, consider a parachute adopted by the Lockheed Corporation:

In order to encourage certain executive officers to remain with the Corporation and to continue to devote full attention to the Corporation's business in the event an effort is made to obtain control of the Corporation through a tender offer or otherwise, the Corporation has entered into severance agreements with certain executive officers, including Messrs. Kitchen, Fuhrman, Marafino and Tellep. These severance agreements provide for certain payments and benefits in the event of the termination of the officer's employment within three years of *a change in control* (as defined in the severance agreements). ... The payments and benefits include cash payments of *three times the officer's base annual salary* at the time of the change in control or termination, whichever is higher; ... *three times the Corporation's annual matching contributions* on behalf of the officer to the Salary Employee Savings Plan; *the cash value of the officers' target* established under the Long Term Performance Plan performance cycles as in effect on the date of termination; and the *equivalent cash value of providing certain health and dental insurance plans and other fringe benefits* as in effect prior to the change in control for a three-year period following termination. ... Additional benefits provided by the agreements include *the vesting of all retirement benefits* and the *addition of three years of credited service* under the salary retirement plans and *the vesting of all benefits under the Salary Employee Savings Plan*. (Lockheed Corporation 1987; italics added)

The Lockheed agreement offers an example of a “gold-plated” parachute. It provides an extensive package of benefits that expands upon mere salary by adding unpaid incentives, matching contributions, and health and dental insurance. In addition to the provisions shown here, the plan furthermore included the immediate vesting of stock option plans for management, thus making them immediately exercisable as part of the payout to management.

In short order, outside audiences and certain shareholders came to regard more extensive parachutes such as Lockheed’s as excessive pay and benefits. One of earliest controversial cases was that of William Agee, CEO of Bendix, who received more than four million dollars upon his departure in 1983, with the total parachute payments to Bendix executives amounting to some \$15.7 million. The details of these compensation arrangements caused widespread outrage when they became public knowledge in the wake of Bendix’s high-profile takeover battle with Martin Marietta. Many shareholders saw this as payment for failure: well-managed firms don’t get taken over, so why should the CEO of Bendix receive such a rich reward? Within short order, such golden parachute agreements were called a “web of enrichment devices” that were “grossly excessive and wholly unjustified” (Berry 1988), a “waste of corporate assets” and “breach of fiduciary duty” (Nossiter 1982), and “a fraud upon the corporation” (Kleinfield 1982).

In response to this critique, proponents of golden parachutes asserted that they were needed to protect the interests of shareholders because CEOs would be more prone to allow economically beneficial takeovers if they did not have to worry about their own economic well-being afterwards; indeed, a company’s share price tended to rise in the wake of the announcement of a parachute, suggesting that they benefited shareholders on balance (Lambert & Larcker 1985). Nonetheless, despite the vigorous defense of golden parachutes given by many managers and compensation consultants, some directors were not convinced of their value or legitimacy. For instance, Felix Rohatyn, a seasoned corporate director serving on six boards, stated that “If an executive needs a multimillion-dollar contract to get his mind clear in a takeover situation, then maybe he should see a psychiatrist.” Similarly, the chairman of another company

stated “I and my board hold the opinion that golden parachutes are an unconscionable rape of a shareholder’s assets” (Morrison 1982: 83; 87).

Eventually, the golden parachute debate became so controversial that the U.S. Congress intervened. As part of the Deficit Reduction Act of 1984, Congress revised the tax code to deny tax benefits to “excess golden parachute payments.” The law defined these as payments whose present value “equals or exceeds an amount equal to 3 times the base amount” of executives’ prior total compensation. This threshold of three times the base amount had two unintended effects. First, it legitimated payments below and up to the threshold (e.g., Berry 1988), with amounts of 2.99 the base salary becoming widely prevalent—“the government maximum quickly became an industry norm” (Reed-Lajoux 2005: 269). Second, it shifted innovation in parachutes to additional provisions that were not salary-related, such as stock options, retirement plans, or health insurance. However, shifting to other benefits was not a universal trend, as a considerable number of corporations simply decided to “gross up” the parachute plans—that is, to cover any additional taxes imposed by Congress on payments exceeding the three-base-salaries threshold.

Courts also began to question golden parachute agreements. For example, after the Beatrice Companies in 1985 awarded golden parachute contracts to six of their top executives totaling \$23.5 million, their decision was challenged by a slew of shareholder suits. Likewise, in the wake of AMF’s takeover bid by Minstar in 1985, Florida shareholder Edith Citron filed a class action suit on behalf of all former AMF shareholders, alleging that the golden parachute awarded to CEO Thomas York and other AMF executives presented a breach of fiduciary duty on the part of the firm’s board of directors.

Lawsuits such as these became more numerous during the mid-1980s, including cases against companies such as Lockheed, RCA, Revlon, Signal, and Western Pacific, indicating that a new phase of contestation with regard to parachutes had arrived. In fact, by the end of the 1980s, the adoption of new parachutes had dwindled, and by 1994 new adoptions had decreased to a handful per year among the largest U.S. corporations, with the overall adoption rate at about 60 percent.

Thus, the overall pattern of diffusion is accelerating adoption throughout the 1980s but declining adoption after 1991 because the majority of the Fortune 500 population had already adopted by then. As golden parachutes diffused and changed, so too did the reasons for adoption. In particular, financial economists and investment bankers succeeded in linking the ability to maximize shareholder value with takeover deals—deals that might otherwise be thwarted by executive resistance. In effect, golden parachutes fit the logic of de-diversification that became institutionalized over this period (Davis et al. 1994). In essence, a practice that had emerged to address the employment uncertainty of top executives had come to be frequently justified as safeguarding shareholder interests, thus shifting the logic of adoption from benefitting management to benefitting shareholders.

In the broader court of public opinion, however, golden parachutes continued to be widely viewed as inappropriate payoffs for an abdication of stewardship. Rather than viewing golden parachutes as incentives that lubricate value-maximizing changes in ownership, an alternative sphere and segment of society conceptualizes golden parachutes as seven- and eight-figure payoffs given to executives for standing aside to let their companies be acquired and, in some cases, broken up in ways that meant thousands of workers lost their jobs. It is clear from both the debates of the 1980s and the most recent furor over executive pay that golden parachutes remain controversial in the political arena to this day.

Overall, therefore, golden parachute agreements offer a particularly attractive context for examining how practices vary over the course of the diffusion process. As described above, they present a practice with considerable variation along a number of dimensions. Moreover, details on golden parachutes are required to be disclosed in a firm's proxy statement each year, thus allowing easy access to their content for other potential adopters (Rogers 1995). Thus, parachutes allow for imitation as well as customization in the diffusion process. Finally, golden parachutes were also highly controversial from the very beginning, thus allowing us to examine practice variation in the context of active contestation and conflicting rationales (Fiss & Zajac 2004; Lounsbury 2007).

## THEORY AND HYPOTHESIS DEVELOPMENT

As our history of adoption and implementation indicated, the widespread adoption and use of golden parachutes among top executives of U.S. corporations did not coincide with taken-for-grantedness or even acceptance beyond the executive suite. Yet, widespread adoption is frequently taken as evidence of institutionalization (e.g., Tolbert & Zucker 1983; Westphal et al. 1997). This puzzle reveals a unique and theoretically important feature of our study site: the wide use of a practice in one sphere of social life need not coincide with or lead to acceptance in other spheres. This situation is consistent with the notion that distinct spheres of society have their own institutional logics for elaborating what is appropriate (Boltanski & Thévenot 1991; Friedland & Alford 1991). Thus, what becomes legitimate among top executives may not meet with approval in the larger spheres of politics, family, religion, or education. Indeed, as the history of golden parachutes illustrates, the diffusion of a practice may come with considerable contestation and counter-mobilization.

In traditional accounts of institutionalization, diffusing practices came to be universally accepted and taken for granted (e.g., Tolbert & Zucker 1983; Westphal et al. 1997). Here, organizations were expected to adopt or face a loss of legitimacy; for instance, a firm that did not adopt TQM could lose contracts or face negative publicity. In contrast, we complement these prior studies by focusing here on a situation of contested diffusion where this was not at all the case. Throughout the diffusion process, golden parachutes were fiercely criticized by shareholders and in the media and were also the subject of frequent court challenges. Accordingly, our study sheds light not on a situation of growing institutionalization but rather on the diffusion trajectory of a highly controversial practice that—while becoming expected among executives—never came to be fully institutionalized in the public realm.

What, then, is the effect of such contestation on the diffusion trajectory of a practice? What differences should we expect in diffusion patterns? We suggest that variations in the implementation of the practice itself are an important window into understanding diffusion processes. While diffusion studies have traditionally focused on the demand side characteristics to predict the diffusion of a

relatively invariant practice, recent work has suggested shifting the focus to understanding practice variation during the diffusion process (Ansari et al. 2010; Frenkel 2005; Lounsbury 2001). Regarding the current case of patterns of practice variation, we follow Ansari et al. (2010) in focusing on two fundamental dimensions to explain variation in diffusing practices: *extensiveness* and *similarity*.<sup>1</sup> Here, extensiveness measures the degree of practice implementation, and similarity measures how alike these implementations are to previous versions of the practice. Both present conceptually different dimensions in that extensiveness assesses change in degree while similarity assesses change in kind: “practices are high [in similarity] but not extensive when they are truer to the previous version—but not comprehensively implemented. Practices are extensive but low [in similarity] if comprehensively implemented—but not true to the previous version” (Ansari et al., 2010: 73). We believe using these two dimensions of diffusing practices allows for a more fine-grained analysis of how practices vary as they spread, as they capture both the nature of a practice and its actual implementation.

This argument suggests hypotheses that distinguish population-level and organization-level mechanisms of practice variation (Ansari et al. 2010; Love & Cebon 2008; Schneiberg & Soule 2005). We now turn to translating the argument into hypotheses regarding variation in golden parachutes.

## **Population-level Mechanisms Affecting Practice Variation**

### *Diffusion Trajectory and Time of Adoption*

While prior research has mostly focused on the adoption event itself, several recent studies have begun to consider issues relating to the extensiveness of practice implementation (e.g., Fiss & Zajac 2006; Lounsbury 2001; Westphal et al. 1997; Westphal & Zajac 2001). In this regard, factors influencing practice diffusion are likely to reach beyond the mere adoption event to also affect patterns of practice implementation. Developing a cognitively grounded model of how adoption motivations affect the extent

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<sup>1</sup> While Ansari et al. actually employ the term *fidelity* here, we use the term *similarity* to refer to the same construct, but prefer this term as it somewhat easier to integrate into our hypotheses.

of implementation, Kennedy & Fiss (2009) argue that motivations to achieve gains will be associated with more extensive practice implementation, while motivations to avoid losses will be associated with less extensive practice implementation. Their arguments suggest that the extensiveness of practice implementation is to a considerable extent affected by whether adopters perceive a diffusing practice as legitimate and aligned with their interest or as imposed by the institutional environment.

For the diffusion of golden parachutes, continued contestation across the diffusion process indicates that adoption was not so much driven by a desire to appear legitimate, but rather by the interests of top executives. Golden parachutes evidently benefitted top management, and such severance agreements came to be increasingly expected among executives (Kleinfield 1982). As parachutes became “part of the fabric of compensation programs at most large companies” (Proeksch 1986), there was a self-serving motivation on the part of executives to engage in elaboration and extension of the practice to include more elements. To complement this development, major law firms increasingly established in-house experts on severance packages to guide companies through the implementation process (Berry 1988). In addition, the continued contestation of golden parachutes also led to a shift in which these packages focused less on salary but instead began to include more provisions for additional benefits, such as the covering of legal fees or health insurance. Such benefits still benefitted executives but had two advantages: first, they were harder to quantify and thus did not invite contestation to the same extent, and second, they were economically advantageous as they did not face the same tax penalties.

Given a situation of external contestation but the presence of internal champions, this suggests a pattern in which golden parachute plans become increasingly expansive over time, which brings us to our first hypothesis.

*Hypothesis 1a (H1a): Later time of adoption will have a positive effect on the extensiveness of golden parachute plans.*

Regarding the similarity to prior adoptions, extant institutional arguments primarily suggest decreasing variation in response to isomorphic pressures toward conformity. In these arguments, customization is largely restricted to early adopters, while later adopters are more likely to mimic the normative model or definition established by earlier adopters (e.g., Westphal et al. 1997: 387).

When practices are contested, however, isomorphic pressures are weaker, and there can be no taken-for-grantedness. This suggests a somewhat different logic for practice variation. Specifically, we can no longer expect variation to be anchored to a widely embraced normative model. Instead, contested diffusion both allows and requires later adopters to discover which forms of the practice are most appealing to some audiences and least unacceptable to others. Finding this balance gains the approval of the audiences that are for the practice while avoiding protest from the audiences that are against it.

In the case of golden parachutes, there is considerable evidence that there were two distinct reactions to them. On the one hand, managers desired golden parachutes (e.g., Kleinfield 1982) and, at least to some extent, so did boards of directors. On the other hand, labor, communities that depended on companies as organized for jobs, and elected officials who represented them all took a dimmer view of golden parachutes. A continued interest in adoption, together with a desire to minimize the reputational cost to the firm, should lead firms to converge on packages that are less offensive to outside audiences. Again, this process is likely to be aided by the emergence of compensation specialists at outside law firms guiding firms through the implementation process, helping these firms to create potentially less offensive packages. Drawing on these arguments, this suggests that, over time, parachute plans should come to increasingly resemble those of prior adopters. Hence, we propose the following hypothesis.

*Hypothesis 1b (H1b): Later time of adoption will have a positive effect on the similarity of golden parachute plans.*

### *Information Availability*

An important issue regarding practice variation relates to the availability of information about a diffusing practice. Specifically, greater availability of information is likely to be associated with greater extensiveness (Ansari et al. 2010). In the absence of detailed information, risk aversion is likely to negatively affect deviation. Particularly during the early period of practice diffusion, when there is limited information about the effectiveness of a new practice or when it is likely to generate political controversy as golden parachutes did, we expect organizational decision makers to proceed more cautiously and incrementally with adoption (Mooney & Lee 1999; Rice & Rogers 1980). However, as more information about the practice becomes available, potential adopters are better able to understand the practice and which features are particularly problematic, and this knowledge should enable them to implement more extensive versions of a practice. (Glick & Hays 1991; Mooney & Lee 1999).

Regarding the availability of information, the media play an important role in disseminating information by facilitating the sharing of information and knowledge (Gamson et al. 1992; Pollock & Rindova 2003; Sine, Haveman, & Tolbert 2005). Specifically, media discourse is a central venue for conversations about new products and practices and acts as a key source of sensemaking (Fiss & Hirsch 2005; Kennedy 2008), and thus the media not only cover but also construct social realities and agendas (Zilber 2006). We follow Strang & Macy (2001) in assuming a model of boundedly rational actors seeking to learn from limited information about the experiences of others, particularly by emulating the most successful peers. Regarding golden parachutes, increasing diffusion was associated with a considerable growth in the coverage of such severance agreements, thus providing potential adopters with considerable information about the nature of these practices and “success stories” regarding the experiences of peer firms. Building on these arguments, we expect growing media discourse to be associated with greater knowledge about the diffusing practice, thus reducing uncertainty and allowing adopters to implement more extensive and potentially less offensive versions of a practice, particularly

when controlling for whether the media coverage presents a practice as contested (Green 2004; Sine et al. 2005).<sup>2</sup> This leads us to our next hypothesis:

*Hypothesis 2a (H2a): Media coverage of golden parachutes will have a positive effect on the extensiveness of golden parachute plans.*

At the same time, greater information availability about a practice also provides potential adopters with more leeway to match the practice to their specific needs. Regarding the effect of media coverage on the adoption of a contested practice, greater information availability might provide potential adopters with knowledge as to what features resulted in positive experiences and what features prompted resistance from outside constituents. Once workable arrangements have been identified, there not only may be costs of continued variation, but there also may remain little in terms of possible efficiency increases. Accordingly, availability of information about prior adopters' experiences will likely promote convergence on implementations that worked well elsewhere. Controlling for the contested nature of the media discourse, this argument would suggest that increased media coverage will lead newly adopted plans to be more similar to those previously adopted. Accordingly, we suggest the following hypothesis:

*Hypothesis 2b (H2b): Media coverage of golden parachutes will have a positive effect on the similarity of golden parachute plans.*

### *Regulative Environment and Legal Challenges*

Variation in diffusing practices is furthermore likely to be affected by the regulative environment in which adoption and implementation take place (e.g., Sine et al. 2005; Suchman 1995). In this regard, contested practices and innovations are particularly likely to be challenged in court by either stakeholders

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<sup>2</sup> While we expect growing media discourse to be associated with greater knowledge about the diffusing practice, we do not mean to say that media outlets are the only source of information for executives, directors, and shareholders, although they certainly are an important source. Rather, we consider media coverage a proxy for overall information availability about the practice.

or other organizations that stand to gain from either inhibiting diffusion or affecting what version of the practice is adopted. Regarding the current context, such law suits—both those already decided and those still pending—introduce greater uncertainty into the process of creating parachutes.

As noted above, golden parachutes became the target of several highly publicized legal suits in which both shareholders and acquirers challenged the legitimacy of these severance packages in court. However, although a number of potential test cases were tried, the courts generally did not take a definite position on the enforceability of golden parachute contracts, and considerable legal uncertainty persisted even during the later 1980s (Bress 1987). In particular, application of the business judgment rule made it more likely that carefully drafted parachutes would be upheld. Nevertheless, the presence of these court cases and the associated indeterminacy regarding the legal standing of golden parachutes presents a dilemma for boards of directors, as it led to considerable uncertainty regarding what versions of the parachute are acceptable. In response, the risk of the unwanted publicity associated with a legal challenge as well as the threat of legal liability should make directors less willing to award large parachutes to management. As the head of a senior consultancy noted, “the suits have people skittish” (Proeksch 1986). We therefore expect contestation in the regulative environment to inhibit the adoption of extensive golden parachute plans. Accordingly, we hypothesize the following.

*Hypothesis 3a (H3a): Court cases against golden parachutes will have a negative effect on the extensiveness of golden parachute plans.*

In a similar vein, the presence of legal contestation of golden parachutes should also affect how far corporations look to prior parachutes as models for their own severance agreements. On the one hand, the presence of court challenges suggests that firms may consider adjusting their own plans to avoid the risk of having them invalidated by a negative judgment. In the related case of poison pills, private law firms additionally acted as legal entrepreneurs that developed and marketed new products (Powell 1993),

leading to the emergence of new legal devices for responding to court challenges. Accordingly, one might argue that the presence of court cases will have a negative effect on the similarity of golden parachutes.

On the other hand, however, a strategy of plan differentiation might require significant changes to plans and considerable effort in setting up severance agreements that may be dissimilar enough to avoid court challenges. When faced with considerable uncertainty regarding the best course of action, prior work has pointed to the importance of imitation processes (e.g., DiMaggio & Powell 1983; Haunschild & Miner 1997). In the regulatory domain, adopting versions of a contested practice that resemble those of other adopters has the added benefit of also providing a “safety in numbers” effect, as an increasing number of similar plans makes legal challenges less feasible. In contrast, adoption of a fairly unique plan that differs considerably from standard plans in use makes it more likely a corporation will attract unwanted attention from the opponents of golden parachutes. Adopting plans similar to those adopted previously thus reduces the risk that the corporation will be singled out for legal contestation.

Given considerable arguments suggesting both a negative and a positive effect of court cases on plan similarity, it is more difficult to make a clear prediction. Where there is legal uncertainty about a practice, however, the cost of deviating from previous models is likely to be higher, both in terms of reputation and in retaining outside counsel capable of developing new types of contracts that are likely to be upheld. Thus, we cautiously adopt the following hypothesis.

*Hypothesis 3b (H3b): Court cases against golden parachutes will have a positive effect on the similarity of golden parachute plans.*

## **Organization-Level Mechanisms Affecting Practice Variation**

### *Firm visibility*

Patterns of practice variation are likely to be influenced by organization-level factors. In particular, prior research suggests that the specific form an adopted practice takes is likely to be influenced by the visibility of the adopting organization. This is even more likely if the practice in

question is contested, as is the case in the current context. As suggested by Oliver (1991), exposure to or isolation from a variety of diverse stakeholder groups is likely to affect a firm's response to institutional pressures. Similarly, Meznar and Nigh (1995) have argued that visibility of firms in the media makes them more responsive to social and political pressures. Visibility of firms has been shown to affect issues such as corporate philanthropy (Brammer & Millington 2006), the framing of strategic change (Fiss & Zajac 2006), and profit margins (Erffle & McMillan 1990).

This suggests that the visibility of an adopting firm will likely also affect the extensiveness of practice implementation. Regarding golden parachutes, due to the increasing attention and opposition to them on the part of shareholders and the public, boards would usually prefer that these agreements did not come under close scrutiny (Berry 1988). Because visibility in the media creates exposure to constituent groups such as shareholders, visibility should lead firms to adopt versions of a practice that are less rather than more extensive in order to avoid antagonizing these constituents. Conversely, firms with a lower profile may face fewer constraints in offering their executives more elaborate parachute packages. This suggests the following effect of visibility of practice extensiveness.

*Hypothesis 4a (H4a): Greater visibility of a firm will have a negative effect on the extensiveness of its golden parachute plan.*

Furthermore, the visibility of an adopting organization is likely to affect not only the extent of the adopted practice but also whether the version of a practice it implements resembles prior adoptions. Actors that are more centrally located in networks of social relations face greater restrictions on their actions (Davis 1991; Leblebici et al. 1991; Strang & Soule 1998). Similarly, organizations with greater visibility are likely to be more limited in their ability to adopt custom-tailored versions, making them more likely to implement versions of a practice that are also adopted by other organizations. Given the contested nature of golden parachutes, this suggests that highly visible organizations would be more likely to adopt "plain vanilla" versions of the practice in order to avoid negative press coverage rather

than standing out with rather unique versions of the pill. Accordingly, more visible organizations are likely to implement the kind of practice that is commonly implemented by prior adopters during that time of the diffusion process. This suggests the following hypothesis regarding similarity in diffusing golden parachute plans.

*Hypothesis 4b (H4b): Greater visibility of a firm will have a positive effect on the similarity of its golden parachute plan to those of prior adopters.*

#### *Takeover Exposure*

Firms also differ in terms of their exposure to hostile bids for a change in control, an issue particularly germane with regard to golden parachute arrangements. A key argument for the adoption of parachutes is that they allow the firm to recruit and retain talented executives. However, if a firm already faces a takeover bid, there is no need for the parachutes' recruiting attributes, and executives are also unlikely to leave their employment in the midst of a takeover battle. Accordingly, boards of directors that deploy a golden parachute after a takeover bid face considerable challenges in justifying the expense (Bress 1987). For these reasons, "it is also considered bad form to hastily draw these agreements right after a hostile bid arises. They look less suspect to outsiders if they are fixtures before bids crop up" (Kleinfield 1982). For instance, when Garfinckel, Brooks Brothers, Miller & Rhoades Inc. implemented a quite generous plan only the day before a hostile bid by Allied Stores became public, a number of questions arose as to whether this was a legitimate plan. Because such parachutes are much more difficult to justify, we would expect boards to approve on average less generous severance agreements when in the middle of a takeover battle. Thus, we propose the following hypothesis.

*Hypothesis 5a (H5a): The presence of a takeover bid for the focal firm will have a negative effect on the extensiveness of its golden parachute plan.*

Golden parachute plans adopted in the midst of a takeover battle are, furthermore, likely to be more similar to other plans previously adopted. Specifically, the evident difficulty of justifying the adoption of a golden parachute plan at this timing should lead boards to implement plans similar to those that have already been adopted by other large corporations. Adopting a fairly standard plan allows the boards to point toward precedent as well as “safety in numbers” (Ahmadjian & Robinson 2001), which appears particularly important given the challenges in rationalizing the plan based on the timing of adoption. Such last-minute parachutes have also been criticized as legally not enforceable contracts because the executives had not done anything to warrant the payout (e.g., Greenhouse 1985), but prior adoption and payout of similar plans reduces the likelihood of court challenges for the board.

Accordingly, we expect the following relationship.

*Hypothesis 5b (H5b): The presence of a takeover bid for the focal firm will have a positive effect on the similarity of its golden parachute plan to those of prior adopters.*

#### *Managerial Influence*

Variation among severance agreements is furthermore likely to be affected by managers’ ability to be united in their interests. For instance, executives who have made firm-specific investments with their careers will expect some protection from the hazard of loss of employment (Singh and Harianto 1989). Beyond such human capital arguments, however, the balance of power between executives and boards of directors also governs the nature of golden parachute payments. Negotiations about golden parachute packages are generally dealt with at the board level and do not require shareholder approval, thus increasing the likelihood that powerful managers will aim to use social influence mechanisms to affect how agreements are actually implemented (Belliveau, O’Reilly, and Wade 1996; Fiss 2006).

Regarding the ability of managers to negotiate their severance agreements, CEOs hired from the outside may have a significant advantage vis-à-vis the board in such negotiations. In particular, the availability of other options should increase the bargaining power of outsider CEOs, while inside

candidates are usually seen by the board to have fewer options (Lawler & Bacharach 1979; Hermalin & Weisbach 2003). Furthermore, boards are likely to be more powerful in negotiations with inside candidates because there are likely several potential candidates (Elsaid, Davidson, & Wang 2009). In combination, these arguments suggest that executives hired from the outside will be able to negotiate for more extensive parachute packages than CEOs hired from the inside. Thus, we hypothesize the following.

*Hypothesis 6a (H6a): Having an outsider CEO will have a positive effect on the extensiveness of a firm's golden parachute plan.*

Similar arguments also apply to the CEO's ability to ask for unique elements in the parachute. Boards tend to make fairly extensive use of benchmarking in setting executive compensation (Porac, Wade, & Pollock 1999). With uncertainty about parachute agreements, boards should generally opt for severance packages that are similar to those packages adopted by a large number of other firms rather than for very unique packages, thus reducing the likelihood of stakeholder resistance and lawsuits. The need to show that a parachute agreement is comparable to other agreements seems particularly important, since, as one acquirer stated, "some shareholders will be gunning for directors in every case" (Proeksch 1986). However, the board's ability to negotiate a standard package is likely to be countered by a CEO's ability to demand a customized package. In particular, CEOs hired from the outside should face fewer constraints in asking for parachute contracts tailored to their specific needs and whims, resulting in parachute packages that are less similar to the average contract. This suggests the following hypothesis.

*Hypothesis 6b (H6b): Having a CEO hired as an outsider will have a negative effect on the similarity of a firm's golden parachute plan to those of prior adopters.*

## **DATA AND METHODS**

To test our hypotheses about extensiveness and similarity of golden parachute agreements, we collected details on all golden parachute contracts adopted by publicly listed U.S. firms included in either

the 1980 or 1986 Fortune 500 lists. Following Davis and Greve (1997), we identified parachute adoption as a formal obligation to provide compensation to an executive contingent upon a “change in control” in the corporation. If a severance agreement did not explicitly mention a change-in-control clause, it was not counted as a golden parachute. In contrast to Davis and Greve, however, we do include packages that consisted primarily of compensation other than cash, such as accelerated stock options, benefits such as insurance, or coverage of legal fees, as long as these packages were specifically triggered by a change in control.

### **Adoptions and Periodization**

A total of 314 parachute agreements were adopted between 1980 and 1990. After excluding cases with incomplete data, 294 golden parachute agreements were available for analysis. Figure 1 shows the number of new parachute agreements put in place each year. The peak years for adoption were 1982 and 1983. By the end of 1982, the variations implemented by early adopters contained all of the major contract provisions we identified as relevant for our analysis of practice variation. In 1984, agreements dropped to a lower but mostly steady level through 1986. Paradoxically 1984’s Congressional action to tax golden parachute payments signaled that the idea of a golden parachute had truly arrived. Then, 1987 marked the beginning of a mostly downward trend—1989 was a blip exception—that tailed off sharply at the decade’s end. Going beyond our data analysis window, other studies of golden parachutes suggest that adoptions remained extremely low in the early 1990s (Narayanan & Sundaram 2000).

Thus, we select 1980–1990 as the period in which golden parachutes diffused and became standard corporate practice (cf. Davis & Greve 1997). For purposes of our analysis, we define the early versus middle versus late years of the period as 1980–1983 1984–1986, and 1987–1990, respectively. These roughly equal periods line up well with three different levels and trends of adoption activity, but the growth and decline at the beginning and end of the decade are steep enough that expanding the middle period a year either way has little effect on our analyses.

--- Insert Figure 1 about here ---

### **Defining Features of Golden Parachutes: A Concept Network Approach**

To analyze changes in the features of golden parachute contracts, we identified the range of distinct provisions they included. From a close reading of all the agreements, we identified 13 such provisions, which are listed in Table 1. Of these 13 distinct provisions, 11 had appeared in at least one agreement by the end of 1981, and all 13 had appeared by the end of 1982. These 13 provisions of golden parachutes represent the range of options adopting boards of directors might choose to include when entering into change-of-ownership severance arrangements with their officers. We coded every agreement for the presence or absence of each of the 13 provisions.

--- Insert Table 1 about here ---

Table 1 shows these 13 features of golden parachutes in rank order of co-occurrence with other provisions, weighted by the frequency of co-occurring provisions. For example, the first five items tell us that golden parachutes became known as contracts that guaranteed officers a bonus for selling the company, usually as a lump-sum payment even though the promise of continued employment was typically part of the deal as well, regardless of whether covered executives decided to leave voluntarily or because they were let go.

The 13 features in Table 1 reflect the variety and range of concerns covered in our earlier discussion of the history of golden parachutes. As explained, golden parachutes departed from prior executive severance agreements by offering compensation and benefits in the case of ownership changes—and doing so with generosity designed to overcome executive resistance to such changes. Another commonly discussed feature of golden parachutes is the percentage of salary included in such plans. While this feature of contracts has been examined previously (Singh & Harianto 1989), the U.S.

Congress imposed limits on it in the Tax Reform Act of 1984. Specifically, that act imposed increased tax liabilities on executives for “excessive” golden parachute payments, usually defined as payments whose present value equaled or exceeded three times the executive’s average total compensation in the five years preceding the takeover. For several years, penalties were significant for both employers and departing executives. For the former, they included a loss of the company’s tax deduction on the extra compensation; for the latter, a surcharge of 20 percent on the executive’s personal income tax. Between limits to these payoffs and our interest in variation rather than excess, we use salary percentage as a control variable.

To understand the importance of provisions for the overall practice, we draw on network methods to analyze the provisions in Table 1 in terms of their co-implementation with other provisions. The intuition here is that provisions that co-occur with others frequently or almost always are most central to the concept, while those that rarely co-occur are more peripheral. To assemble such a view of which contract features were most essential to golden parachute implementations, we created for each period a 2-mode affiliation matrix relating agreements to contract provisions. Furthermore, to allow an easy visualization, we converted that 2-mode matrix into a single-mode adjacency matrix showing how the contract provisions co-occurred in agreements. In such a model of relations among contract provisions, those that co-occur most often can be viewed as the provisions most essential to the emerging standard for what ought to be implemented in golden parachute agreements.

Furthermore, core vs. peripheral conditions can be tangibly measured using a variety of measures of network centrality. For our study, we chose eigenvector centrality for two benefits that meet our needs as summarized by Bonacich and colleagues (Bonacich 2007; Bonacich, Oliver, & Snijders 1998). First, eigenvector centrality offers the advantage of paying attention to the weight or frequency of links between items, so more-frequent co-occurrences between items are taken into account. Second, the measure also takes a network’s entire pattern of connectedness into account in a way that effectively weights the connections that contribute to a node’s centrality score by their own respective connectedness.

Accordingly, being connected to a large number of nodes that are peripheral to the core structure of a network does not produce the same eigenvector centrality as having the same number of connections to a set of nodes very much at the network's center. This is precisely what we want to measure in order to analyze how implemented contract provisions changed as contracts unfolded. That is, we want to know how the features of golden parachute contracts either fit into or depart from the prior selection of provisions over time.

The right-most three columns of Table 1 show the results of the eigenvector analysis on three versions of the 2-mode affiliation matrix relating contracts to provisions—one for each of the early (1980–1983), middle (1984–1986) and late (1987–1990) adoption periods. It is evident that voluntary and involuntary termination provisions—allowing the executive to leave either by their own choice or only after being dismissed—have the highest centrality scores, followed by provisions regarding the executive's continued employment with the corporation as well as lump sum salary and bonus payments. Looking down the rows, one sees that there is a steep drop-off in centrality scores in the last third or so of the list, with relocation and legal fee provisions as well as non-competition clauses as the lowest-scoring provisions. Looking across the rows, the bottom five items account for less than 10% of the total centrality score in each of the three time periods, and the top five account for two-thirds of the same total in all three periods. Moreover, no contract provision moves from the top or the bottom of this co-occurrence ranking. This fits with our observation that the defining provisions of golden parachutes were all introduced early in the diffusion process of this controversial compensation practice—by the end of 1982.

To better understand and explain the patterns of association among contract provisions, we also used network visualization techniques to explore how they changed over time. For that, we converted our 2-mode network data to single-mode provision-by-provision adjacency matrices, as mentioned above, and we used these three matrices—one for each period. As opposed to social networks that model relations

among people, concept networks show the pattern of relations among the parachute elements out of which the practice emerged.

Figure 2 shows separate concept networks for the early, middle, and later adoption periods. As suggested by the eigenvector centralities shown in Table 1, the golden parachute concept networks show a high degree of centralization. That is, all of the contract provisions co-occur with a majority of the other provisions; none is completely isolated or implemented with a small and distinct subset of the array of contract provision options. The left-hand side of Figure 2 defines a series of bands that correspond to Freeman's degree centrality of the nodes in each of the three concept networks. This simplest of centrality measures is useful for visualization because it maps to a very tangible aspect of network data: it is defined simply as the number of other nodes to which a node is connected (Freeman 1979).

--- Insert Figure 3 about here ---

It is important to note what the diagrams in Figure 2 show—and what they do not show. First, the diagrams show centrality of elements at the *practice* level, not the level of the individual golden parachute, making them useful for tracking changes in the composition of a practice overall. Second, though presented in two dimensions, each of these diagrams is based on a 3-dimensional layout algorithm, and all are all laid out with the most central contract provisions at the top of the page, roughly in planes that tilt slightly from left to right. Each plane contains provisions with a similar degree centrality, and lower plans thus equal lower levels of degrees centrality. In a concept network with relations among 13 ideas or practices, 12 is the highest possible degrees centrality. For the contract provisions that have degrees centrality of 12, this means that the collection of contracts in which they appear—when taken all together—add up to at least one connection to all of the other contract provisions. Though simple and intuitive, this visualization of degrees centrality does not show how frequently connections co-occur. While that can be shown with heavier lines between nodes, the current state of the art in network visualization is such that this quickly makes it harder to see the overall structure—the

branches quickly obscure the forest. From the eigenvector centralities in Table 1, however, several contract provisions highly connected in the later period are not frequently highly connected, so they are weighted less and score lower. For example, relocation is fully connected in the middle period, but it still has a lower eigenvector score because it is infrequently co-implemented with other provisions.

The concept network visualization we employ is helpful in tracking shifts in the centrality of golden parachute elements over time. Consistent with what we expect of a coherent concept, the concept network is quite centralized, even early on, but not as centralized as it becomes in the second period when the golden parachutes' core elements become clearer. As the practice diffuses, information about the choices of prior adopters becomes available, along with a growing sense about what aspects of the practice are either useful or problematic. Later adopters thus stand to benefit from greater information about adoption experiences. In the case of golden parachutes, that information relates to being effective at neutralizing executive resistance to ownership changing deals and, for executives, profiting handsomely in the process. However, results for the third panel again indicate a less centralized concept network in the third period, indicating that as the extensiveness of parachute agreements increases, this also leads to greater variance in the centrality of individual practice elements. We discuss this finding further as we review our statistical analyses below.

### **Dependent variables**

The concept network data we develop are furthermore useful for constructing measures of practice extensiveness and similarity. The underlying intuition here is that we use each provision's eigenvector centralities to weigh its importance for calculating both extensiveness and similarity. Conceptually, implementation extensiveness depends more on including or omitting provisions highly central to the golden parachute concept than provisions that are more peripheral in golden parachute implementations. Our measure is thus constructed in relation to the typical parachute for a given period. While of course both core and peripheral features are needed to achieve high extensiveness scores,

features that are more central and thus more essential to a practice should be weighted more heavily than those that are more peripheral. For instance, consider two parachute agreements, A and B, each comprising only three features, for the sake of simplicity. However, agreement A comprises three features that are conceptually central (i.e. features that are essential to golden parachutes and are shared by a large number of agreements), while agreement B comprises three features that are not essential to the golden parachute practice (i.e. features that are comparatively rare ). A simple count measure would indicate the same extensiveness score for agreements A and B. However, weighting each feature by its centrality assures that agreement A is assigned a higher score than agreement B, since agreement A implements more features that are highly central to the parachute concept. The same goes for calculating the similarity of agreements: including or omitting specific features of a diffusing practice matters more when they are central to the concept than when they are peripheral. The following paragraphs explain how we use this logic to calculate the measures of extensiveness and similarity.

*Extensiveness.* To measure the extensiveness of a golden parachute contract’s implementation with respect to emerging expectations for what one should include, we sum the products of dummies for each of the 13 contract provisions and the prior period’s eigenvector centrality scores for each provision. We compute extensiveness,  $E$ , as

$$E = \sum_{i=1}^{13} EC_i \cdot \mathcal{P}_i, \quad (1)$$

where the 13  $EC_i$  and  $GP_i$  values are the eigenvector centralities based on the prior period’s contracts and the dummies indicating presence (1) or absence (0) for each of the contract provisions listed in Table 1.<sup>3</sup>

*Similarity.* To measure how similar a golden parachute contract is to those adopted in the previous year, we first compute a mean for each contract provision by multiplying the prior year’s

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<sup>3</sup> We also conducted additional analyses using a simple count measure as a robustness check. While we believe the weighted measure presents a superior approach, using this simpler measure led to substantively identical results.

eigenvector centrality scores for each one by multiplying a dummy for the presence (1) or absence (0) of that provision in the contract. We then sum up those means to get a composite average.<sup>4</sup> Next, we take the absolute value of the difference between that sum and the product obtained from multiplying the vector of eigenvector centralities times the transpose of a vector of dummies for the presence or absence of each contract feature in a focal contract. Using equation (1) from above, similarity  $S$  can also be expressed as a sum, as follows:

$$B = \sum_{j=1}^{13} \sum_{i=1}^n GP_{it} \cdot EC_{j(t-1)} \quad (2)$$

$$S = |B - E|, \quad (3)$$

where  $B$  is a baseline for expectations established by the prior year's implementations and  $S$  is the absolute value of the difference between that and the focal contract's extensiveness score.

### Independent variables

*Time.* We use the year of adoption of an individual plan as a predictor variable that reflects the gradual field-level effects of diffusion over our analysis period, as explained in the section on the history of golden parachutes.

*Media Coverage.* We measure media coverage as the number of articles per year that mention the terms "golden parachutes" or "employee retention plans." Figure 3 shows media coverage mentioning golden parachutes between 1980 and 1990 based on the *New York Times*, *Wall Street Journal*, *Washington Post*, *Forbes*, *Fortune*, *BusinessWeek*, and *Newsweek*. To avoid issues of reverse causation

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<sup>4</sup> Since these is a linear function, one might argue that it is not configurational, strictly speaking, but the rank ordering of the eigenvectors makes missing any central provision almost impossible to compensate for by some other combination of contract provisions. Further, an interesting alternative measure might be the similarity to plans adopted in the same year. However, the mechanism for similarity is less clear here, while similarity to previous adoptions offers a clear theoretical rationale and empirical mechanisms (i.e. the ability to observe and learn about what parachutes were adopted previously).

where media coverage may stem from concurrent parachute adoption, we lag this measure by one year. We furthermore control for the tenor of this coverage, as discussed under control variables below.<sup>5</sup>

--- Insert Figure 3 about here ---

*Court Cases.* Using the Lexis/Nexis legal database, we collected information on all federal and state court cases in which a challenge to golden parachutes was the central issue of the lawsuit, thus excluding all cases in which parachutes were a mere incidental aspect. Based on these data, we constructed a count variable of the number of court cases per year adjusted for a firm's state of incorporation; while federal cases affect all firms, state cases are treated as affecting only those firms incorporated in that state. Our measure includes pending cases, but cases that were eventually ruled in favor of the golden parachute plan are again removed.

*Firm visibility.* To assess the visibility of an adopting firm, we follow prior research by using the number of times the firm is mentioned in the news media (Meznar & Nigh 1995; Fiss & Zajac 2006). Our measure is based on the New York Times or Wall Street Journal—arguably the two most important national newspapers in the United States that cover both general and economic topics—and divided by 100.

*Takeover Exposure.* To identify whether a firm was affected by merger and acquisition activity, we conducted news article searches using the ABI/Inform database to identify the presence of takeover activity. Using a three-month window on each side of the adoption date, we created a dummy variable coded 1 if the firm was subject to either takeover speculation or an actual tender offer (e.g., Ryngaert 1988).

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<sup>5</sup> Because our measure of media attention is considerably correlated with time ( $r = 0.83$ ), we residualized this measure by regressing it on the linear time variable and then subtracting the predicted values from the measure's actual values, leaving it with only its unique variation, while assigning all confounded variation to the time variable, thus avoiding potential multicollinearity problems (Fiss & Hirsch 2005). Additional robustness checks confirmed that residualization itself has no substantive impact on the results.

*Managerial Influence.* We identified CEOs hired from the outside vs. inside using a variety of sources such as *Marquis Who's Who Biographies*, ABI/Inform searcher of newspaper articles in the *New York Times*, *Forbes*, and the *PRNewswire*, as well as the firm's own historical proxy statements and annual reports.

## **Control Variables**

A number of factors have been shown to affect the likelihood of firms adopting golden parachute agreements and parachute characteristics (e.g., Davis & Greve 1997; Singh & Harianto 1989). We therefore include a firm's market capitalization as an indicator of size, the firm's total market return and market-to-book ratio as indicators of performance, and the debt-to-equity ratio as a measure of firm leverage. Because ownership distribution might likewise affect the magnitude of a golden parachute, we also control for the percentage of shares owned by insiders (executives or directors), the percentage of shares owned by the five largest ownership blocks collectively, and the percentage of shares owned by institutional investors (cf. Davis & Greve 1997). We also control for the percentage of insiders on the board and CEO tenure as measures of executive influence. Finally, the centrality of firms in board interlock networks might likewise affect reinvention efforts, either through access to new information or by increasing the visibility of firms among their peers (Davis & Robbins, forthcoming). We therefore control for network centrality using the eigenvector measure (cf. Wasserman & Faust 1994).<sup>6</sup>

Since increased benefits might be a response to limitations on salary compensation imposed by external legislation, we control for the magnitude of salary payments using the percentage of salary included in the golden parachute. We also control for the number of executives covered in an agreement

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<sup>6</sup> For a small number of the control variables, complete data were not obtainable. Listwise deletion of cases due to missing insignificant control variables would have resulted in the loss of about 16 percent of all cases. A comparison between the full and reduced sample indicated that listwise deletion could potentially result in selection bias. Accordingly, we follow Little and Rubin (2002) in using missing-value regression to impute values for these control variables. However, our results are substantially identical across both samples, and we therefore report results for the complete sample of parachute agreements.

since it might also affect the plan's extensiveness. Because parachute agreements with more provisions included are likely to have fewer similar agreements, we control for parachute extensiveness in models predicting similarity and vice versa.

In order to control for the nature of media attention, we calculated the percentage of articles depicting golden parachutes as contested. Two independent coders read all news articles relating to golden parachutes, a total of 799 articles, and coded them for language suggesting golden parachutes were contested, either by the author or some figure or organization whose views are being reported. The coders also determined whether golden parachutes were the defining topic of the article, and inter-rater reliability was high, with Kappa values of 0.88 and 0.81 for the two constructs.

## **RESULTS**

Descriptive statistics and correlations for all variables are shown in Table 2, while overall trends for our dependent measures of extensiveness and similarity are shown in Figure 1. As the figure indicates, both extensiveness and similarity to agreements adopted in the prior year grew significantly over the course of the diffusion process, with extensiveness almost doubling during this observation period, while similarity increased by close to a third. Furthermore, Figure 3 provides additional descriptive information regarding the developing media discourse surrounding golden parachutes. This figure shows that the proportion of articles depicting golden parachutes as contested, as well as the proportion of articles in which parachutes were the main topic, decreases over our analysis period, as do the number of articles per year after 1988. Interestingly, extensiveness of parachutes as shown in Figure 1 increased considerably at the same time that public scrutiny of parachutes in the media appeared to wane, a pattern that would be consistent with the assumption that lowered public scrutiny opened the door to adding further elements to the contested practice to accommodate managerial interests.

--- Insert Tables 2–4 about here ---

We use OLS regressions with robust standard errors to estimate the extensiveness and similarity measures using the independent variables and controls described above, and findings are presented in Tables 3 and 4. Beginning with the population-level factors affecting practice variation, the results lend support to the idea that organizations adopt different versions of practices over the course of the diffusion process while simultaneously paying attention to the actions of other adopters. Consistent with H1a and H1b, we find that over time golden parachute agreements became both more extensive and more similar to those of other adopters, as shown by model 2 in both tables. For every year, parachute extensiveness on average increased by about 3 percent, while parachute similarity increased by about 2 percent. However, it is important to note that the pattern of extensiveness increase does not follow a smooth linear progression, but is instead subject to considerable period effects where extensiveness increases significantly in period 1, is essentially stagnant in period 2, and again increases significantly in period 3. Similarly, similarity is mostly stagnant in period 1, but increases over periods 2 and 3. Nevertheless, note that the overall pattern of increase is in contrast to what one would usually expect regarding the relationship between extensiveness and similarity. If the usual norm regarding golden parachutes was to have only very few provisions, then one would expect the majority of adopters to have these standard provisions. In contrast, if there are many possible provisions, then adopters have a much wider selection to choose from, and thus we would expect similarity to decrease as extensiveness increases.

Regarding the role of the media, we find no support for H2a, which suggested that greater discourse would lead to more extensive parachutes. As for H2b, we interestingly find considerable support for a media effect that is the opposite of that suggested by this hypothesis, which held that higher volume of discourse would increase similarity. In contrast to this hypothesis, our findings indicate that for every 100 articles published, similarity in fact decreases by slightly less than a standard deviation. A possible explanation for this finding is that greater information availability may also expose potential adopters to a wider range of possibilities regarding the implementation of a practice (Ansari et al. 2010), providing them with a greater “menu” of versions from which to choose. These findings furthermore hold

while controlling for the contestation of media coverage, which itself has no significant effect on either dependent measure. It thus appears that media coverage has a significant, negative effect on similarity but no effect on extensiveness.

When it comes to the role of the regulative environment, we find a pattern regarding the effect of federal and state court cases that is the opposite of that for media coverage. Following H3a, the presence of legal cases has a significant, negative effect on extensiveness, with the presence of three cases decreasing parachute extensiveness by slightly more than a standard deviation. Unlike H3b, however, court cases had apparently no effect on the similarity of golden parachute plans. Regarding the population-level factors, this suggests that while information availability primarily leads to lower levels of similarity, the regulatory contestation mainly leads to lower extensiveness.

We find a similar pattern with regard to the organization-level factors influencing practice variation. H4a suggested that greater firm visibility would lead to less-extensive golden parachute agreements. As models 5 and 8 in Table 3 show, the coefficients for firm visibility are indeed negative and significant—for every 100 articles mentioning a firm, parachute extensiveness decreases by about 8 percent. However, we find no support for H4b, which held that more visible firms would also adopt more similar agreements. It thus appears that firm visibility primarily decreased practice extensiveness but had no effect on practice similarity.<sup>7</sup> In contrast, exposure to takeover activity exhibited the opposite pattern: there was no support for H5a, which held that takeover activity would lead to less extensive parachutes, but there was considerable support for H5b, which suggested that takeover activity would lead to the adoption of parachute plans more similar to those of prior adopters—being “in play” increased the similarity of parachute plans by about 6 percent. Finally, the results indicate no support for H6a and H6b,

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<sup>7</sup> As would be expected, the descriptive statistics shown in Table 2 indicated a relatively high correlation of 0.65 between firm visibility and market capitalization. Although market capitalization is not significant in any of the models, we nevertheless conducted additional analyses not reported here to examine whether there existed multicollinearity problems between visibility and market capitalization. However, variance inflation factors did not exceed values of 5, and our results remain substantially unchanged regardless of whether or not the market capitalization control is included.

which held that outsider CEOs would have more-extensive and less-similar parachutes. If anything, the results indicate that outsider CEOs tended to have perhaps less-extensive parachute plans, even after controlling for CEO tenure and the percentage of inside directors on the board.

Regarding the control variables, the results show that the extensiveness of golden parachutes is negatively affected by market return and ownership concentration. This result is in line with the assumption that firms with higher performance and more concentrated ownership tend to have a lower likelihood of being acquired, and their managers consequently face a lower risk of losing their employment, thus reducing the need for more detailed parachute agreements. The models also show that a greater extent of parachutes is positively correlated with the percentage of salary included in golden parachute agreements, indicating that salary and the provisions examined here do not act as substitutes but go along with each other. As for similarity, ownership concentration shows a significant, positive effect on similarity, indicating that powerful owners prefer their managers to have packages that resemble those of other adopters.

## **DISCUSSION**

While the literature on diffusion has thoroughly examined how practices are transferred across populations of organizations, this focus has its limitations. Specifically, assuming that practices are largely uniform and unchanging has tended to divert attention from how practices vary over the course of the diffusion process and what factors might affect such variation. In contrast, some recent studies have moved beyond explaining adoption versus non-adoption to explore how diffusing practices are transformed and vary as they spread (e.g., Lounsbury 2001, 2007; Sine et al. 2005). In the current study, we extend this research by focusing on the role of contestation in diffusion and its effect on practice variation. Employing the twin dimensions of extensiveness and similarity, we develop a finer-grained model of the mechanisms that affect the practice variation in this context, leading to both homogeneity and heterogeneity in diffusion processes. As we show, population-level factors such as information

availability and contestation, as well as organization-level factors such as stakeholder and takeover exposure, not only affect the dimensions of practice variation differentially but also lead to inter-organizational differences in practice variation.

We believe our study makes two primary contributions. First, we expand the extant literature on diffusion by shifting attention away from convergence models and toward a more detailed understanding of the mechanisms that create and suppress variation in a contested context. In our study, we find considerable variance in practices across time and from organization to organization—in both earlier and later periods of diffusion. Our findings thus complement extant institutional diffusion models that emphasize convergence toward the models established by early adopters. By shifting the focus from the spread of a taken-for-granted practice to one that remains contested over its diffusion cycle, we are able to account for a different pattern than one that would be predicted by institutionalization. Rather, we find considerable variation in response to both population- and organization-level influences. Our findings thus also contribute to a growing number of studies that point to an active role of adopters in creating practice variation (e.g., Djelic 1998; Maguire, Hardy, & Lawrence 2004; Lawrence & Suddaby 2006), acting as entrepreneurs and tailoring practices to their specific needs. Regarding the patterns of variations we find, our concept network analysis indicates that elaboration of a practice can take place as long as the core features are also adopted.

Our second contribution is to focus on the role of contestation in diffusion processes, an issue that continues to gain attention (e.g., Sanders & Tuschke 2007; Schneiberg & Soule 2005). As our study shows, the diffusion of practices that generate public debate is affected by both uncertainty at the population level and visibility at the firm level, indicating that both are indeed jointly affecting practice variation. Because the diffusion of corporate governance practices entails issues of power, influence, and the moral order of interests regarding the control of the corporation, it is a particularly attractive topic for institutional theory—one that offers opportunities for clarifying and refining the theory (Fiss 2008). Specifically, our study of a contested practice that nonetheless diffused widely lends weight to a new way

of thinking about the relationship between diffusion and institutionalization. When controversial administrative practices survive legal challenges and diffuse widely to become de facto standards despite the persistent objections of certain stakeholders, they do so without becoming taken for granted—a status typically associated with widespread adoption and institutionalization (Westphal, Gulati, & Shortell 1997; Scott 1995; Tolbert & Zucker 1983).

Because such situations could well be partial institutionalization (Colyvas & Powell, 2006) and are likely related to the balance of power among distinct audiences with divergent reactions (cf. Fligstein and Goldstein, 2010), they raise several questions about diffusion and institutionalization that should be addressed by future research. In what situations can diffusion be reasonably viewed as evidence of legitimation and institutionalization? What factors explain when this is not a reasonable inference? Because conventional legitimacy and institutionalization cannot explain the diffusion of practices in spite of persistent public controversies about them, what other factors explain situations in which a controversial practice—something like golden parachutes—is adopted by substantially all large corporations? These are important questions for future research because they highlight the need to rethink the link between prevalence and legitimacy (Colyvas & Jonsson, forthcoming). In particular, they lend support to the argument that publicly perceived prevalence of something new yet controversial is not sufficient for its legitimation, even if it is important to its reification—the recognition of things as social realities (Kennedy 2008). The relationship between these two aspects of socially constructed orders deserves further exploration and theorization.

Beyond the twin focus on variation and contested diffusion, we also contribute to diffusion studies more broadly by introducing a novel analytical approach for mapping the structural features of diffusing practices. The concept network approach we employ here allows not only for a more detailed analysis of how practices are put together, but the associated network visualization techniques furthermore provide a new way of graphically demonstrating the patterns of practice variation. While the current study is but a first step in this direction, we believe combining diffusion models and network

methods holds significant potential for future studies of practice change and variation. In particular, such a combination should enable further analysis of the temporal patterns of practice variation, such as differences between the variation among a smaller, stable set of features most core to a practice and the variation among more peripheral features. Such patterns should enable finer-grained theorizing about mechanisms for diffusion and legitimation.

Our study also carries implications for policy makers. Currently, debates over golden parachutes are experiencing a considerable revival, not least due to what are again seen as excessive compensation packages for top executives. Furthermore, the term “golden parachute” has taken on a much broader meaning, covering essentially any severance agreement, not merely those triggered by a change in control of the focal firm. Since questions about what sort of severance agreements are appropriate and whether how such agreements should be regulated are an important aspect of this debate, developing a better understanding of how practices vary across the diffusion process provides valuable knowledge in at least two ways. As Ansari et al. (2010) note, policy makers are motivated by the twin objectives of promoting wanted variation on the one hand and suppressing unwanted variation on the other. Thus, having improved knowledge about the factors that are likely to either create or inhibit the appearance of practice variation is essential for the establishment of policies that aim to manage organizational practices. If policy is to be effective in assuring consistent and faithful implementation, it is necessary to understand where and when such variation from a preferred model is likely to occur. In particular, this point raises the question of contested diffusion and symbolic adoption (e.g., Meyer & Rowan 1977; Westphal & Zajac 1994). Most prior studies have focused on understanding when organizations may choose to decouple implementation from formal adoption (e.g., Boxenbaum & Jonsson 2008; Fiss & Zajac 2006), thus using ceremonial adoption to hide non-conformity. However, our study of contested diffusion reflects a different situation in which the practice was not externally validated, so ceremonial adoption would not have been in any way beneficial. Further, since this is usually a contractual agreement between the executives and the corporation, questions of enforceability will likely loom large in the negotiations.

Contrary to the standard decoupling situation, executives here had a strong incentive to adopt and implement the practice, but would have preferred to disguise this fact. In this sense, contested diffusion may in fact feature both situations of classic decoupling and of “veiled” implementation, with the latter offering an interesting way forward for additional research.

Another interesting extension of this research relates to the supply side aspects of the diffusion process, and particularly the role of intermediaries such as consultants, advisors, and attorneys. For instance, regarding the spread of poison pills—another takeover defense—prior work has argued that innovation in the practice was at least partially driven by competition between law firms looking to develop ever more potent pills (Powell 1993). Additional research might thus shift the focus of inquiry from considering demand side factors to such supply side aspects, including the entrepreneurial role of lawyers and consultants, as well as the role of executives more broadly (Kraatz & Moore, 2002).

There are some limitations to the current study that we would like to note. Perhaps most importantly, contested practices are by their very nature more likely to generate higher levels of variation over the diffusion process, as was also suggested by Ansari et al. (2010). Accordingly, we see our findings regarding the role of contestation as complementing prior studies that have focused on the institutionalization of normatively uncontested practices (e.g. Tolbert & Zucker 1983; Westphal et al. 1997; Kennedy & Fiss 2009). However, some of the mechanisms of variation we observe—while more prevalent in our setting—may also occur in the absence of contestation (Ansari et al. 2010). Thus, further empirical studies are needed to examine this issue. In addition, we would like to better understand when to expect wider versus more limited adoption or eventual reversal of the adoption process. For instance, the current context points to the role of opposing coalitions, the stakes for each one, and their ability to mobilize resources in support of their respective positions. This would ideally involve comparisons across multiple instances of contested diffusion, such as the spread of domestic partner benefits (Briscoe & Safford, 2008), poison pills (Davis & Greve, 1997), or governance regimes such as shareholder value management (Fiss & Zajac, 2004).

Finally, in the current study we have focused primarily on the practice's extensiveness and similarity, taking a longitudinal approach that highlights inter-organizational as well as inter-temporal differences across the diffusion process. However, other aspects of practice diffusion clearly also warrant attention, such as changes in a practice's framing and its associated meaning (e.g., Dacin et al., 2002; Hirsch 1986; Strang & Meyer 1993; Zilber 2002, 2006). More recently, we have witnessed a renewed emphasis on using interpretive approaches to understanding how organizations adapt, interpret, and "translate" practices to fit local conditions (Boxenbaum & Battilana 2005; Czarniawska & Joerges 1996; Sahlin-Andersson & Engwall 2002; Zilber 2006). If a diffusing practice like the golden parachute comes with normative theories attached, whether explicit or implicit, or if it tends to privilege certain constituents over others, then adoption requires interpretive work that integrates these theories into pre-existing organizational frameworks and provides justifications for external and internal audiences. As Strang and Soule (1998: 277) argue, such interpretive work "selects and transforms the diffusing practice," and while practices may be more or less amenable to interpretation, "none come out of this process unmodified." Such an approach presents an even further shift from prior diffusion accounts by firmly accepting variation and change as inseparable from the way in which practices are transmitted. Fundamentally, every transmission involves translation, and implementations are never exactly alike—just as we can never step into the same river twice, similarity in implementation is thus always a matter of how fine-grained the analysis is. Stepping back, it would perhaps appear that conformity and convergence are more surprising than variation. In view of the many ways any practice can vary as it diffuses, the apparently ordinary case of institutionalization appears to be the more remarkable achievement. This view challenges us to rethink both diffusion and variation. For instance, we may ask: when is practice variation a deviation from a stable standard, and when is it a deviation that morphs into a completely new practice? How might we tell the difference? On these and many other questions, we believe studying variation and contestation in diffusion promises a better understanding of the forces that shape innovation and change.

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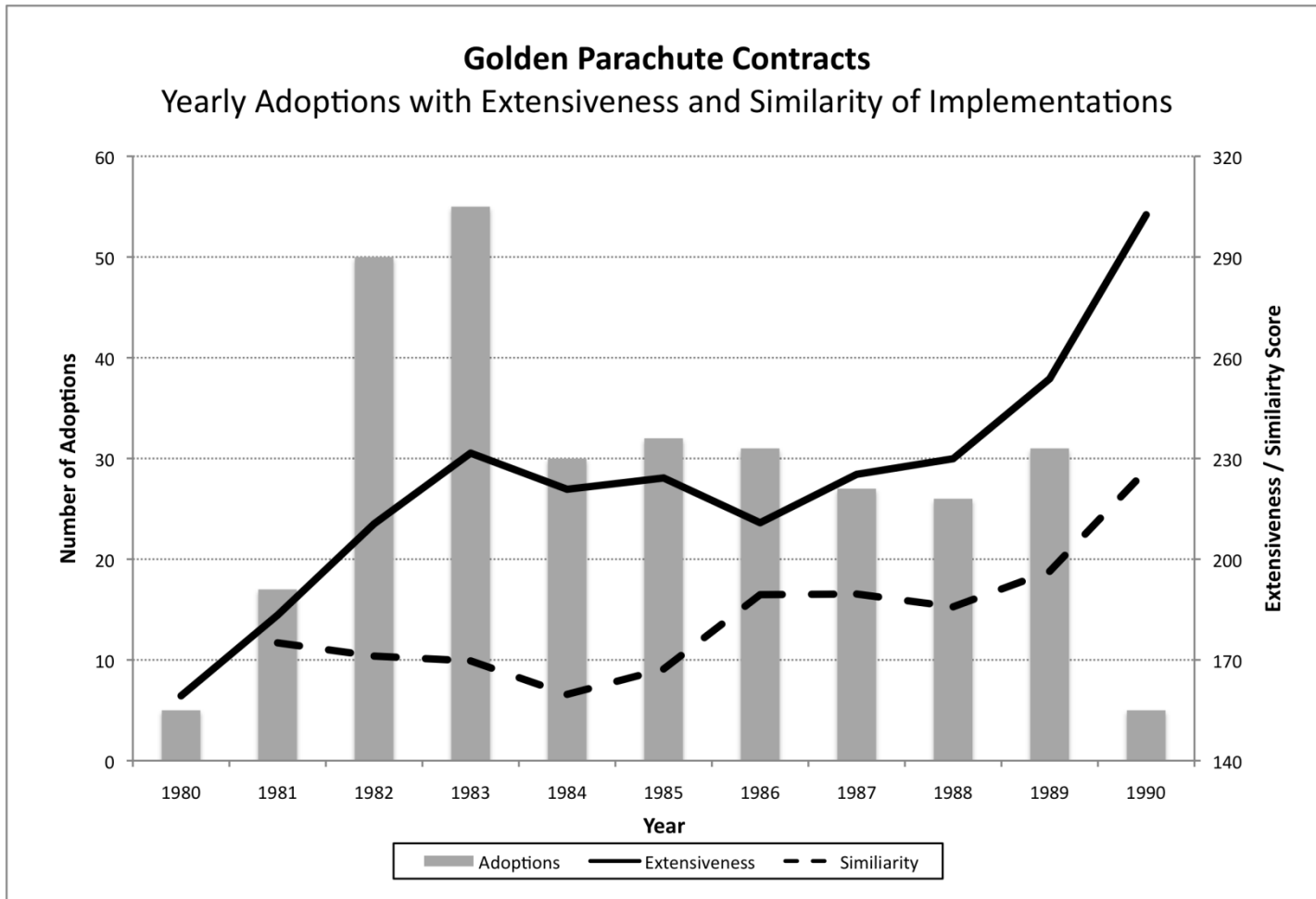
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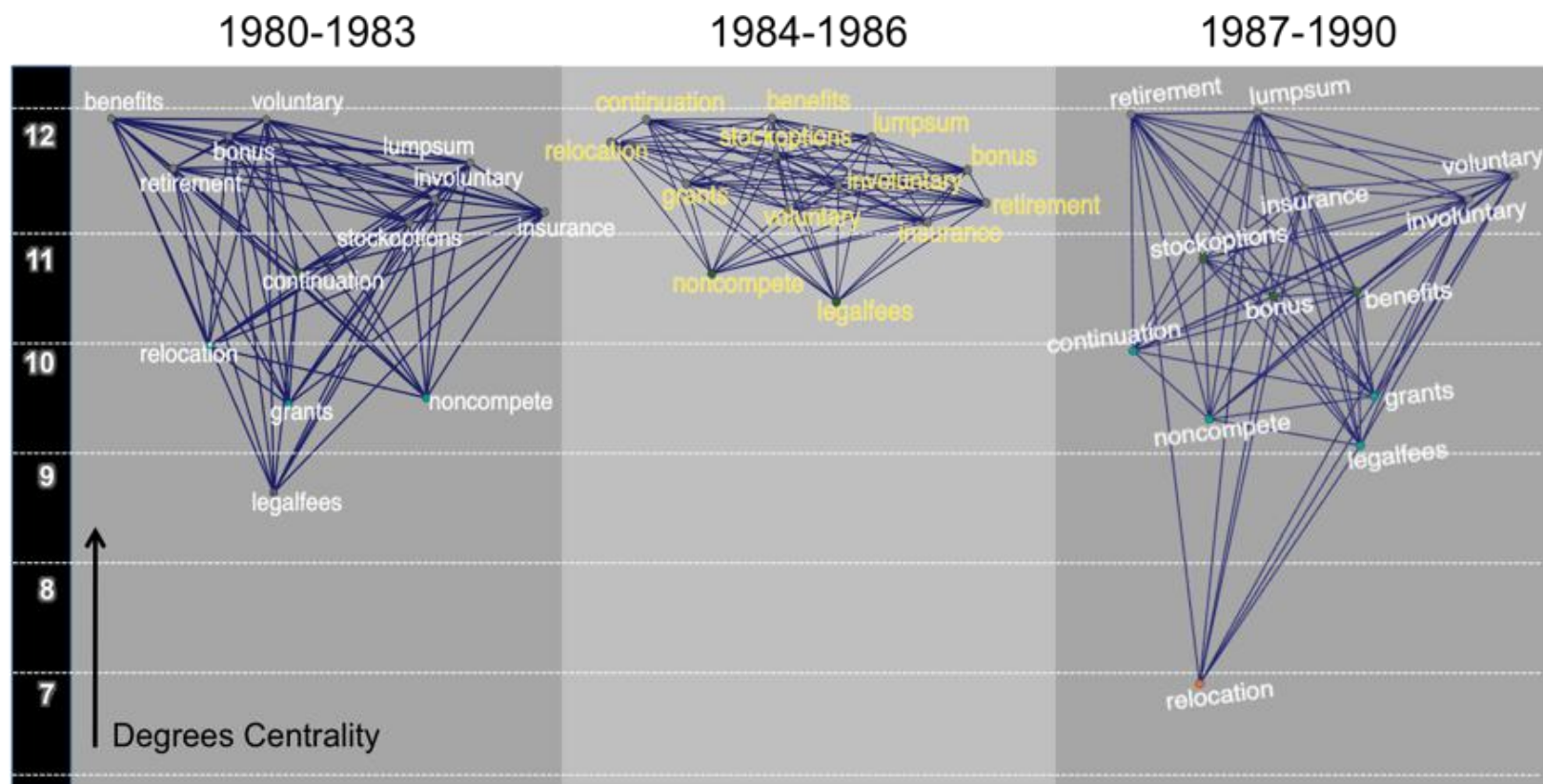
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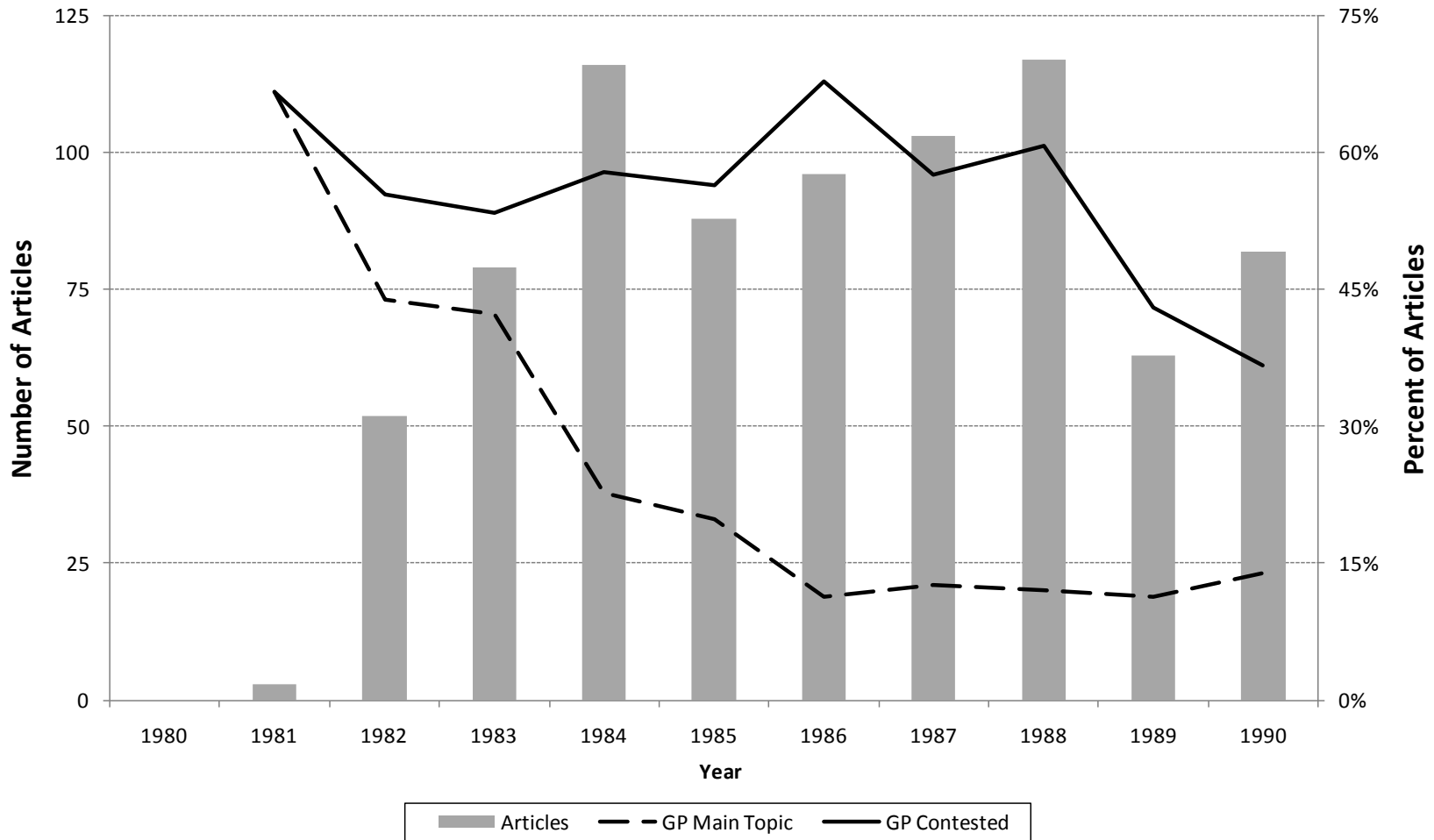
Figure 1



**Figure 2: Golden Parachute Contract Provisions Most Commonly Implemented by Period**



**Figure 3: News Articles Mentioning Golden Parachutes**



**Table 1: Golden Parachute Provisions**

| <b>Description</b>   | <b>Abbreviation</b> | <i>Norm. Eigenvector Centrality</i> |              |              |
|--|---------------------|-------------------------------------|--------------|--------------|
|  |                     | <b>80-83</b>                        | <b>84-86</b> | <b>87-90</b> |
| 1. Voluntary termination of the officer as a trigger                         | Voluntary           | 71.4                                | 71.9         | 71.0         |
| 2. Involuntary termination of the officer as a trigger                       | Involuntary         | 56.2                                | 61.2         | 62.0         |
| 3. Continued employment of the officer after a change in control             | Continuation        | 55.1                                | 53.0         | 60.4         |
| 4. Lump sum payment option for covered officers                              | Lumpsum             | 51.6                                | 51.7         | 50.6         |
| 5. Bonus awarded to the officer(s)   | Bonus               | 49.5                                | 43.6         | 45.6         |
| 6. Health insurance continuation for officer(s) after a change in control    | Insurance           | 35.8                                | 34.7         | 30.1         |
| 7. Retirement benefits continuation for officer(s) after a change in control | Retirement          | 33.5                                | 33.4         | 25.8         |
| 8. Other benefit continuation for officer(s) after a change in control       | Benefits            | 18.3                                | 25.3         | 29.6         |
| 9. Stock option payments to officers   | Stockoptions        | 26.0                                | 19.3         | 12.3         |
| 10. Stock grant payments to officers   | Grants              | 9.4                                 | 13.5         | 10.9         |
| 11. Relocation fees for officers covered                                     | Relocation          | 9.4                                 | 7.9          | 4.4          |
| 12. Legal fees for officers covered  | Legalfees           | 2.7                                 | 10.9         | 9.2          |
| 13. Non-competition clause included  | Non-Compete         | 3.0                                 | 3.6          | 2.0          |

**Table 2: Descriptive Statistics and Pearson Correlation Coefficients (N = 289)**

| Variable                      | Mean    | S.D.    | 1.    | 2.    | 3.    | 4.    | 5.    | 6.    | 7.    | 8.    | 9.    | 10.   | 11.   | 12.   | 13.   | 14.   | 15.   | 16.   | 17.   | 18.   | 19.   | 20.  |
|-------------------------------|---------|---------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|
| 1. Extensiveness              | 222.47  | 87.28   |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |      |
| 2. Similarity                 | 196.92  | 29.59   | 0.24  |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |      |
| 3. Time                       | 5.61    | 2.55    | 0.16  | 0.33  |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |      |
| 4. No. Articles (resid.)      | 0.00    | 23.33   | -0.02 | -0.23 | 0.00  |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |      |
| 5. Court Cases                | 0.00    | 0.46    | -0.13 | 0.02  | 0.00  | -0.33 |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |      |
| 6. Firm Visibility            | 0.68    | 0.86    | -0.07 | 0.02  | 0.24  | 0.06  | -0.09 |       |       |       |       |       |       |       |       |       |       |       |       |       |       |      |
| 7. Takeover Activity          | 0.22    | 0.42    | 0.08  | 0.17  | 0.09  | -0.05 | -0.01 | 0.29  |       |       |       |       |       |       |       |       |       |       |       |       |       |      |
| 8. CEO Hired as Outsider      | 0.15    | 0.35    | -0.13 | 0.02  | -0.08 | 0.03  | -0.07 | -0.06 | -0.01 |       |       |       |       |       |       |       |       |       |       |       |       |      |
| 9. Market Capitalization      | 1350.37 | 1765.00 | 0.05  | 0.09  | 0.37  | -0.07 | -0.02 | 0.65  | 0.16  | -0.15 |       |       |       |       |       |       |       |       |       |       |       |      |
| 10. Market Return             | 19.27   | 38.28   | -0.22 | -0.04 | 0.02  | 0.04  | 0.00  | 0.05  | -0.04 | -0.01 | 0.03  |       |       |       |       |       |       |       |       |       |       |      |
| 11. Market to Book Ratio      | 1.44    | 0.84    | -0.05 | 0.09  | 0.42  | -0.03 | 0.02  | 0.17  | 0.00  | -0.04 | 0.38  | 0.29  |       |       |       |       |       |       |       |       |       |      |
| 12. Debt to Equity Ratio      | 50.76   | 72.95   | -0.04 | -0.03 | -0.06 | 0.09  | -0.05 | -0.01 | -0.04 | -0.04 | -0.07 | 0.19  | 0.05  |       |       |       |       |       |       |       |       |      |
| 13. Insider Ownership         | 9.69    | 11.04   | -0.05 | 0.05  | 0.26  | 0.01  | -0.02 | -0.13 | -0.07 | 0.08  | -0.17 | -0.04 | 0.10  | -0.14 |       |       |       |       |       |       |       |      |
| 14. Conc. Ownership           | 26.30   | 13.66   | -0.12 | 0.11  | 0.22  | -0.08 | 0.01  | -0.14 | -0.10 | 0.10  | -0.21 | 0.04  | 0.02  | -0.06 | 0.57  |       |       |       |       |       |       |      |
| 15. Institutional Ownership   | 33.45   | 16.81   | 0.08  | 0.02  | 0.10  | -0.07 | 0.06  | 0.17  | -0.01 | -0.10 | 0.35  | -0.21 | 0.25  | -0.23 | -0.17 | -0.13 |       |       |       |       |       |      |
| 16. % Insider Directors       | 28.58   | 13.10   | -0.04 | 0.01  | 0.11  | -0.07 | 0.03  | -0.06 | 0.00  | -0.02 | 0.02  | 0.07  | 0.04  | -0.09 | 0.08  | 0.05  | 0.00  |       |       |       |       |      |
| 17. CEO Tenure                | 7.71    | 7.22    | -0.09 | -0.09 | -0.03 | 0.07  | -0.09 | 0.01  | -0.05 | 0.02  | 0.04  | -0.03 | 0.03  | 0.03  | 0.08  | 0.00  | -0.06 | 0.21  |       |       |       |      |
| 18. Network Centrality        | 2.77    | 3.39    | 0.07  | 0.06  | 0.02  | 0.01  | -0.05 | 0.45  | 0.16  | -0.12 | 0.44  | -0.05 | 0.00  | -0.01 | -0.28 | -0.23 | 0.25  | -0.24 | -0.08 |       |       |      |
| 19. Salary Component          | 212.69  | 124.63  | 0.22  | 0.13  | 0.00  | -0.13 | 0.08  | -0.08 | 0.06  | 0.02  | 0.02  | -0.04 | 0.05  | -0.13 | 0.02  | 0.02  | 0.15  | 0.04  | 0.02  | -0.03 |       |      |
| 20. No. of Executives Covered | 15.16   | 15.82   | 0.06  | 0.09  | 0.12  | -0.13 | 0.07  | 0.14  | 0.10  | -0.14 | 0.24  | 0.03  | 0.09  | -0.05 | -0.09 | -0.05 | 0.18  | -0.03 | 0.01  | 0.13  | 0.02  |      |
| 21. % of Articles Contested   | 0.53    | 0.20    | 0.04  | -0.06 | 0.17  | 0.26  | -0.08 | 0.05  | 0.07  | 0.04  | 0.00  | -0.19 | -0.05 | 0.02  | -0.02 | -0.05 | 0.07  | 0.02  | 0.01  | 0.05  | -0.01 | 0.04 |

**Table 3: OLS Regression Models Predicting Extensiveness of Golden Parachute Agreements<sup>a</sup> (n = 289)**

| Independent Variable      | Extensiveness        |                      |                      |                       |                      |                      |                      |                       |
|---------------------------|----------------------|----------------------|----------------------|-----------------------|----------------------|----------------------|----------------------|-----------------------|
|                           | Model 1              | Model 2              | Model 3              | Model 4               | Model 5              | Model 6              | Model 7              | Model 8               |
| Time                      |                      | 6.477**<br>(2.450)   |                      |                       |                      |                      |                      | 6.527**<br>(2.414)    |
| No. Articles              |                      |                      | 0.283<br>(0.231)     |                       |                      |                      |                      | 0.091<br>(0.221)      |
| Court Cases               |                      |                      |                      | -28.887**<br>(10.749) |                      |                      |                      | -31.572**<br>(10.882) |
| Firm Visibility           |                      |                      |                      |                       | -16.660**<br>(6.414) |                      |                      | -18.549**<br>(6.434)  |
| Takeover Activity         |                      |                      |                      |                       |                      | -11.102<br>(11.587)  |                      | -3.538<br>(11.178)    |
| Outsider CEO              |                      |                      |                      |                       |                      |                      | -29.804*<br>(15.099) | -27.482<br>(14.404)   |
| Market Capitalization     | 0.000<br>(0.004)     | -0.004<br>(0.004)    | 0.001<br>(0.004)     | 0.000<br>(0.003)      | 0.005<br>(0.004)     | 0.000<br>(0.004)     | -0.001<br>(0.004)    | 0.001<br>(0.004)      |
| Market Return             | -0.505***<br>(0.135) | -0.483***<br>(0.135) | -0.521***<br>(0.135) | -0.516***<br>(0.134)  | -0.479***<br>(0.136) | -0.508***<br>(0.136) | -0.501***<br>(0.134) | -0.466***<br>(0.134)  |
| Market to Book Ratio      | -4.086<br>(9.218)    | -9.514<br>(9.531)    | -4.182<br>(9.279)    | -3.353<br>(9.222)     | -5.575<br>(9.139)    | -4.101<br>(9.239)    | -3.613<br>(9.384)    | -10.011<br>(9.773)    |
| Debt to Equity Ratio      | 0.014<br>(0.048)     | 0.019<br>(0.052)     | 0.011<br>(0.050)     | 0.010<br>(0.049)      | 0.013<br>(0.050)     | 0.010<br>(0.048)     | 0.006<br>(0.049)     | 0.005<br>(0.057)      |
| Insider Ownership         | 0.105<br>(0.541)     | -0.109<br>(0.552)    | 0.044<br>(0.549)     | 0.066<br>(0.542)      | 0.141<br>(0.553)     | 0.105<br>(0.540)     | 0.105<br>(0.521)     | -0.134<br>(0.549)     |
| Conc. Ownership           | -1.253**<br>(0.428)  | -1.456***<br>(0.419) | -1.192**<br>(0.430)  | -1.221**<br>(0.426)   | -1.232**<br>(0.431)  | -1.307**<br>(0.429)  | -1.216**<br>(0.416)  | -1.363***<br>(0.415)  |
| Inst. Ownership           | 0.012<br>(0.388)     | 0.078<br>(0.386)     | 0.012<br>(0.388)     | 0.028<br>(0.381)      | 0.005<br>(0.387)     | -0.008<br>(0.388)    | -0.020<br>(0.383)    | 0.054<br>(0.377)      |
| % Insider Directors       | 0.037<br>(0.402)     | -0.059<br>(0.404)    | 0.069<br>(0.399)     | 0.087<br>(0.395)      | 0.027<br>(0.400)     | 0.053<br>(0.402)     | 0.005<br>(0.389)     | -0.029<br>(0.388)     |
| CEO Tenure                | -0.818<br>(0.712)    | -0.640<br>(0.720)    | -0.893<br>(0.712)    | -1.031<br>(0.714)     | -0.816<br>(0.712)    | -0.844<br>(0.717)    | -0.798<br>(0.702)    | -0.885<br>(0.716)     |
| Network Centrality        | -0.714<br>(1.693)    | -0.347<br>(1.677)    | -0.801<br>(1.658)    | -0.853<br>(1.651)     | 0.180<br>(1.703)     | -0.623<br>(1.694)    | -0.855<br>(1.674)    | 0.371<br>(1.597)      |
| Salary Component          | 0.135**<br>(0.046)   | 0.140**<br>(0.045)   | 0.139**<br>(0.045)   | 0.141**<br>(0.046)    | 0.125**<br>(0.046)   | 0.136**<br>(0.046)   | 0.138**<br>(0.046)   | 0.141**<br>(0.045)    |
| No. of Executives Covered | 0.197<br>(0.308)     | 0.188<br>(0.321)     | 0.247<br>(0.316)     | 0.265<br>(0.292)      | 0.163<br>(0.304)     | 0.210<br>(0.316)     | 0.108<br>(0.314)     | 0.161<br>(0.308)      |
| Similarity                | 0.699***<br>(0.182)  | 0.556**<br>(0.189)   | 0.738***<br>(0.185)  | 0.699***<br>(0.183)   | 0.688***<br>(0.178)  | 0.728***<br>(0.180)  | 0.717***<br>(0.181)  | 0.580**<br>(0.189)    |
| % of Articles Contested   | 1.427<br>(26.877)    | -15.635<br>(25.898)  | -6.917<br>(27.970)   | -3.589<br>(26.448)    | 3.739<br>(26.892)    | 3.558<br>(27.127)    | 4.774<br>(26.543)    | -17.598<br>(26.767)   |
| Constant                  | 105.784*<br>(48.313) | 120.933*<br>(48.018) | 99.959*<br>(48.390)  | 103.060*<br>(48.362)  | 115.031*<br>(47.723) | 102.343*<br>(48.048) | 106.898*<br>(48.315) | 126.421**<br>(47.388) |
| F                         | 4.35***              | 4.75***              | 4.49***              | 4.58***               | 4.47***              | 4.30***              | 4.64***              | 5.57***               |
| Df                        | 31, 257              | 32, 256              | 32, 256              | 32, 256               | 32, 256              | 32, 256              | 32, 256              | 37, 251               |
| R-squared                 | 0.25                 | 0.27                 | 0.25                 | 0.27                  | 0.26                 | 0.25                 | 0.26                 | 0.32                  |

<sup>a</sup> Robust standard errors in parentheses. All models also control for industry (dummy variables).

\*  $p \leq .05$ ; \*\*  $p \leq .01$ ; \*\*\*  $p \leq .001$ ; significance tests are one-tailed for directional hypotheses and two-tailed for control variables.

**Table 4: OLS Regression Models Predicting Similarity of Golden Parachute Agreements<sup>a</sup> (n = 289)**

| Independent Variable      | Similarity             |                       |                        |                        |                        |                        |                        |                        |
|---------------------------|------------------------|-----------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
|                           | Model 1                | Model 2               | Model 3                | Model 4                | Model 5                | Model 6                | Model 7                | Model 8                |
| Time                      |                        | 4.108***<br>(0.978)   |                        |                        |                        |                        |                        | 4.103***<br>(0.944)    |
| No. Articles              |                        |                       | -0.240***<br>(0.072)   |                        |                        |                        |                        | -0.236***<br>(0.070)   |
| Court Cases               |                        |                       |                        | 2.572<br>(3.973)       |                        |                        |                        | -1.843<br>(3.930)      |
| Firm Visibility           |                        |                       |                        |                        | 0.135<br>(2.973)       |                        |                        | -1.924<br>(2.308)      |
| Takeover Activity         |                        |                       |                        |                        |                        | 13.605***<br>(4.071)   |                        | 11.953**<br>(4.084)    |
| Outsider CEO              |                        |                       |                        |                        |                        |                        | 6.577<br>(4.555)       | 7.362<br>(4.673)       |
| Market Capitalization     | 0.001<br>(0.001)       | -0.001<br>(0.001)     | 0.001<br>(0.001)       | 0.001<br>(0.001)       | 0.001<br>(0.001)       | 0.001<br>(0.001)       | 0.002<br>(0.001)       | -0.001<br>(0.001)      |
| Market Return             | -0.022<br>(0.047)      | -0.014<br>(0.046)     | -0.006<br>(0.046)      | -0.020<br>(0.047)      | -0.022<br>(0.048)      | -0.016<br>(0.047)      | -0.021<br>(0.047)      | 0.009<br>(0.045)       |
| Market to Book Ratio      | 3.751<br>(2.751)       | -0.054<br>(2.888)     | 3.717<br>(2.644)       | 3.689<br>(2.735)       | 3.763<br>(2.752)       | 3.644<br>(2.619)       | 3.637<br>(2.742)       | -0.440<br>(2.699)      |
| Debt to Equity Ratio      | -0.007<br>(0.018)      | -0.003<br>(0.017)     | -0.005<br>(0.018)      | -0.007<br>(0.018)      | -0.007<br>(0.018)      | -0.003<br>(0.017)      | -0.006<br>(0.018)      | 0.005<br>(0.016)       |
| Insider Ownership         | -0.046<br>(0.201)      | -0.177<br>(0.194)     | 0.007<br>(0.203)       | -0.043<br>(0.202)      | -0.047<br>(0.202)      | -0.045<br>(0.209)      | -0.046<br>(0.197)      | -0.121<br>(0.197)      |
| Conc. Ownership           | 0.411*<br>(0.159)      | 0.231<br>(0.161)      | 0.351*<br>(0.161)      | 0.411*<br>(0.160)      | 0.411*<br>(0.159)      | 0.466**<br>(0.173)     | 0.405*<br>(0.157)      | 0.214<br>(0.176)       |
| Inst. Ownership           | -0.228<br>(0.146)      | -0.167<br>(0.137)     | -0.220<br>(0.145)      | -0.229<br>(0.146)      | -0.228<br>(0.146)      | -0.196<br>(0.145)      | -0.219<br>(0.144)      | -0.122<br>(0.133)      |
| % Insider Directors       | 0.107<br>(0.148)       | 0.038<br>(0.141)      | 0.076<br>(0.145)       | 0.102<br>(0.147)       | 0.107<br>(0.148)       | 0.083<br>(0.142)       | 0.113<br>(0.145)       | -0.005<br>(0.131)      |
| CEO Tenure                | -0.331<br>(0.241)      | -0.203<br>(0.229)     | -0.251<br>(0.251)      | -0.309<br>(0.243)      | -0.330<br>(0.241)      | -0.282<br>(0.247)      | -0.329<br>(0.238)      | -0.099<br>(0.240)      |
| Network Centrality        | 0.805<br>(0.598)       | 0.962<br>(0.582)      | 0.853<br>(0.577)       | 0.818<br>(0.596)       | 0.798<br>(0.649)       | 0.666<br>(0.579)       | 0.833<br>(0.597)       | 1.012<br>(0.572)       |
| Salary Component          | 0.019<br>(0.016)       | 0.022<br>(0.015)      | 0.013<br>(0.016)       | 0.018<br>(0.016)       | 0.019<br>(0.016)       | 0.016<br>(0.016)       | 0.017<br>(0.016)       | 0.013<br>(0.014)       |
| No. of Executives Covered | 0.177<br>(0.100)       | 0.160<br>(0.100)      | 0.127<br>(0.104)       | 0.170<br>(0.104)       | 0.177<br>(0.101)       | 0.153<br>(0.100)       | 0.194<br>(0.102)       | 0.112<br>(0.102)       |
| Extensiveness             | 0.088***<br>(0.024)    | 0.066**<br>(0.024)    | 0.090***<br>(0.023)    | 0.091***<br>(0.024)    | 0.088***<br>(0.023)    | 0.089***<br>(0.023)    | 0.091***<br>(0.024)    | 0.068**<br>(0.023)     |
| % of Articles Contested   | -8.634<br>(10.306)     | -18.742<br>(9.757)    | -1.262<br>(10.717)     | -8.176<br>(10.302)     | -8.653<br>(10.342)     | -10.929<br>(10.314)    | -9.320<br>(10.250)     | -14.330<br>(10.127)    |
| Constant                  | 170.490***<br>(12.724) | 168.02***<br>(12.263) | 168.681***<br>(12.461) | 170.149***<br>(12.731) | 170.398***<br>(12.764) | 167.938***<br>(12.422) | 168.679***<br>(12.746) | 163.535***<br>(11.834) |
| F                         | 2.30***                | 3.65***               | 2.93***                | 2.28***                | 2.22***                | 2.75***                | 2.38***                | 5.17***                |
| Df                        | 31, 257                | 32, 256               | 32, 256                | 32, 256                | 32, 256                | 32, 256                | 32, 256                | 37, 251                |
| R-squared                 | 0.18                   | 0.25                  | 0.21                   | 0.18                   | 0.18                   | 0.21                   | 0.19                   | 0.31                   |

<sup>a</sup> Robust standard errors in parentheses. All models also control for industry (dummy variables).

\* p ≤ .05; \*\* p ≤ .01; \*\*\* p ≤ .001; significance tests are one-tailed for directional hypotheses and two-tailed for control variables.