

FRAMING CONTROVERSIAL ACTIONS: REGULATORY FOCUS, SOURCE CREDIBILITY, AND STOCK MARKET REACTION TO POISON PILL ADOPTION

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We contribute to the research on organizational accounts by examining the role of different framing languages and the credibility of the frame articulator on justifying controversial organizational actions. Drawing on regulatory focus theory and the literature on source credibility, we develop novel arguments as to how a gains-versus-nonlosses framing and the perceived credibility of the speaker influence stakeholder responses, as well as how the effectiveness of these aspects is influenced by context. We test our arguments using data on the framing of the adoption of “poison pills” by U.S. firms between 1983 and 2008. Using content analysis and an event study, we find that a gains framing aligned with the dominant institutional logic leads to a positive stock market reaction, while statements emanating from speakers with potentially self-serving interests negatively affect the stock market reaction. Our findings further show that the effectiveness of framing and source credibility are dependent on contextual attributes such as speaker visibility, prior performance, and practice prevalence.

How organizations can affect the interpretation of their actions has long been an important topic in the strategy and management literatures (e.g., Ginzler, Kramer, & Sutton, 1993; Salancik & Meindl, 1984; Staw, McKechnie, & Puffer, 1983). In particular, prior studies have explored how organizations use language and verbal accounts to manage a variety of issues, including downsizing (Lamertz & Baum, 1998), executive pay (Wade, Porac, & Pollock, 1997; Zajac & Westphal, 1995), unethical business practices (Garrett, Bradford, Meyers, & Becker, 1989), organizational change (Arndt & Bigelow, 2000), and legitimacy challenges more broadly (Elsbach, 1994).

Recently, researchers have begun to use the notion of “framing” from the literature on social

movements to understand the effectiveness of such organizational accounts (e.g., Cornelissen & Werner, 2014; Fiss & Zajac, 2006; Sillince & Mueller, 2007). According to this perspective, organizations can affect the interpretation of certain events and influence the response of their stakeholders by framing their actions—that is, by formulating accounts that selectively convey preferred meanings and suggest certain interpretations, while hiding others (Benford & Snow, 2000). Moreover, prior research suggests that the role of such framing becomes especially important when organizational actions are controversial and involve divergent stakeholder interests (e.g., Elsbach, 1994; Elsbach & Sutton, 1992; Elsbach, Sutton, & Principe, 1998; Fiss, Kennedy, & Davis, 2012; Gioia & Chittipeddi, 1991), prompting organizations to try to provide compelling accounts that justify their behavior in the face of conflicting pressures or uncertainty over the meaning of such actions (e.g., Ashforth & Gibbs, 1990; Ginzler et al., 1993).

While these studies have been important in breaking new ground, our understanding of the mechanisms that make certain organizational accounts more effective than others is still rather limited. Recently, studies have argued that framing an organizational action in alignment with the dominant institutional logic of the most influential con-

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stituents—that is, referring to the cultural meaning systems that shape the cognitions and behavior of actors (Friedland & Alford, 1991; Lounsbury, 2007; Thornton & Ocasio, 2008)—will lead to a favorable evaluation (e.g., Fiss & Zajac, 2006). While these insights point to the importance of aligning an organizational action with the dominant logic, we still know little about how such an alignment is actually achieved. Frequently, organizations have multiple ways of framing their actions in alignment with the dominant logic, suggesting that there is a need for a stronger theoretical framework as to how this is best accomplished. Such challenges appear particularly significant in the context of a controversial practice the meaning of which is uncertain and which could potentially be aligned with either a dominant logic or opposing arguments (e.g., Fiss et al., 2012).

In this study, we begin to address this issue by taking a more fine-grained approach to understanding the effectiveness of organizational accounts by examining different framing languages. To develop our arguments, we go beyond the current sociological arguments about frame alignment by incorporating social psychology research. Specifically, we draw on regulatory focus theory to explore how frames that are focused on *gains* or *nonlosses* affect the effectiveness of organizational accounts. Furthermore, we expand the focus beyond the content of framing to include also the identity of the frame articulator. In particular, we draw on the literature on persuasion effectiveness—notably on the role of source credibility—to examine how the credibility of the frame articulator influences the target audience's perception and evaluation. Finally, we also examine how the context in which organizational accounts are offered influences the effectiveness of both the frame content and the source credibility. In combination, our arguments advance the literature on framing and sensegiving by showing that it matters *how* the justification of a controversial practice is framed, *by whom* this framing is provided, and *in what context* the organizational accounts are offered.

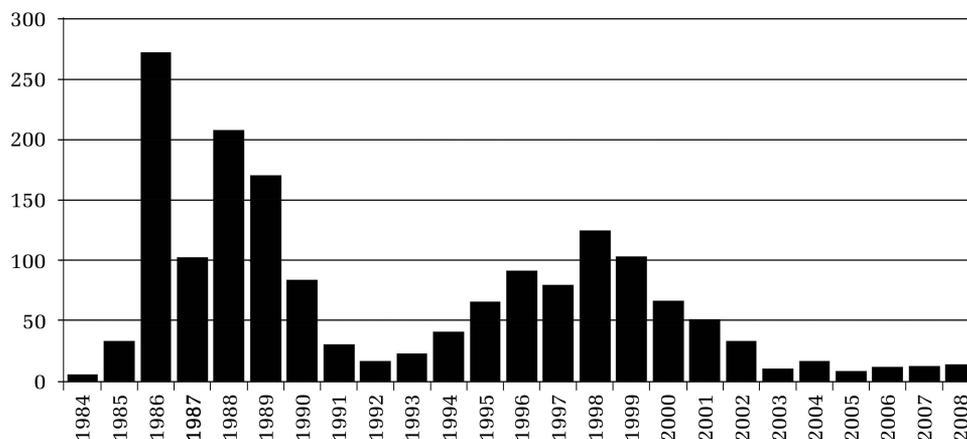
Empirically, we test our arguments using data on the framing of the adoption of shareholder rights plans, also known as “poison pills,” a controversial takeover defense mechanism that has widely diffused among U.S. firms since the early 1980s (Davis, 1991; Davis & Greve, 1997). Poison pills have been controversial since their inception because while management, lawyers, and legislators have generally been in their favor, investors in particular

have been concerned about the potential of an agency problem (Coates, 2000). With such conflicting accounts regarding the meaning of poison pill adoption, evidence on the stock market reaction to such events has also been mixed, suggesting a need to consider additional factors. In particular, prior studies have so far not taken into account that firms regularly offer a rationale for poison pill adoption that may affect investors' interpretation of the event. As such, our study also contributes to the literature on poison pill adoption by using content analysis and event study to examine how the presence of different framing languages in adoption announcements affects the stock market reaction. In particular, we examine how a framing in terms of shareholder value enhancement, reflecting a focus on gains, positively influences stock market reaction. We also examine the role of another framing attribute—source credibility—and how its effect is enhanced by the visibility of the associated frame articulator. Finally, we show how two contextual factors further influence the effectiveness of these framing attributes—namely, the organizational context in which the practice is adopted and the prevalence of the practice itself. Taken together, our study thus contributes to the growing literature on the social construction of financial markets in showing how sensegiving plays a significant role in affecting how investors interpret information in financial markets.

EMPIRICAL CONTEXT: THE ADOPTION OF POISON PILLS

Our study focuses on the adoption of shareholder rights plans, also known as “poison pills,” a corporate governance practice that was first introduced in the early 1980s as a protective device to prevent unwanted tender-based hostile takeovers (Davis, 1991). Poison pills are adopted by the board of directors and commonly issued as a dividend to shareholders of common stock that is triggered when a potential acquirer accumulates a specified percentage of a target firm's outstanding shares. The pill makes it difficult for the potential acquirer to complete a hostile takeover, since it substantially increases the amount that the potential acquirer needs to pay. Figure 1 presents the adoption trend from 1983 to 2008. It indicates two main waves of pill adoption—the first lasting from 1985 to 1990, the second from about 1995 to 2001—a pattern that broadly follows the overall merger and acquisition (M&A) activity in the United States.

FIGURE 1
Trends in Poison Pill Adoption, 1984–2008^a



^a $n = 1,398$.

There are several reasons why the adoption of poison pills and the subsequent stock market reaction offer an appropriate setting in which to study the effectiveness of organizational accounts. First, poison pills represent a controversial practice in need of justification. In fact, since their inception, poison pills have generated considerable debate over their benefits to shareholders—a debate that continues to the present day even though the Delaware Supreme Court upheld the poison pill in the mid-1980s and thus “the legality of the poison pill is well-established” (Velasco, 2001: 403). The main issue in this debate has been whether the adoption of a poison pill enhances or destroys shareholder value. According to the shareholder interest hypothesis, the adoption of antitakeover practices such as poison pills will be beneficial to shareholders by creating long-term contracts for the management and by providing managerial power to negotiate better deals for shareholders (e.g., Grossman & Hart, 1980; Scherer, 1988; Stein, 1988). In contrast, the managerial entrenchment hypothesis holds that antitakeover practices will entrench inefficient managers in underperforming firms, thus leading to the destruction of shareholder value (e.g., Manne, 1965; Walkling & Long, 1984). The contested nature of poison pills and the need for firms to justify their adoption provide a useful context in which to examine the effectiveness of different framing languages.

Second, mixed empirical evidence regarding stock market reactions to poison pill adoptions calls for consideration of additional explanatory factors. For example, several studies based on sam-

ples from the early to mid-1980s have shown a small negative stock market reaction to the adoption of a poison pill (Mahoney & Mahoney, 1993; Mahoney, Sundaramurthy, & Mahoney, 1996; Malatesta & Walkling, 1988; Ryngaert, 1988). However, other studies have found either no statistically significant results (Brickley, Coles, & Terry, 1994; Datta & Iskandar-Datta, 1996; Davidson, Pilger, & Szakmary, 2004) or have shown a significantly positive reaction (e.g., Caton & Goh, 2008). The mixed evidence on the stock market reaction to poison pill adoptions thus affirms the need for a novel approach to understand additional factors that may influence the stock market reaction to the adoption of a poison pill.

Third, prior studies have not considered that adoption announcements also contain the firm’s rationale for its adoption decision, arguing instead (based on the efficient market hypothesis) that value in financial markets immediately reflects new information available in the market because investors interpret such information in the same way (Fama, 1970). However, accounts provided in the announcements can play an important role in influencing how the value of an organizational action is determined in the stock market (Pollock & Rindova, 2003). This notion is also acknowledged by Coates (2000: 298), who observes that the existence of many plausible adoption motives makes sensegiving by organizations an important factor:

An adopting firm . . . may affirmatively announce anything it wants when it adopts or proposes a defense. Inferences drawn by the market will be

affected not only by the adoption or proposed adoption, but also by the statements the firm makes at the time, discounted for credibility.

Such a statement departs from the efficient market hypothesis to acknowledge that investor reactions, “[al]though ‘efficient’ in terms of speed, may be seriously inaccurate and biased” (Schijven & Hitt, 2012: 1248). Our approach here is thus in line with a sociological perspective on financial markets, which suggests that the stock market is influenced by the social context in which information is interpreted (e.g., Zajac & Westphal, 2004). In this study, we further contribute to work on how the interpretation of information influences valuation in financial markets.

THEORETICAL BACKGROUND

Organizational Accounts and Framing

Accounts play a prominent role in our understanding of how organizations aim to influence the perception of key stakeholders (e.g., Elsbach, 1994; Garrett et al., 1989; Lamertz & Baum, 1998). We follow Scott and Lyman (1968: 46), who define an account as “a linguistic device employed whenever an action is subjected to valuative inquiry” and argue that accounts are especially used to explain “unanticipated or untoward behavior.” As such, accounts are usually offered when organizations face situations that may potentially challenge the organization’s legitimacy (Elsbach, 1994). In providing these accounts, “every organization has an interest in seeing its definition of reality accepted” (Pfeffer, 1981: 26). Thus offering accounts can be understood as a form of sensegiving that influences “the sensemaking and meaning construction of others toward a preferred redefinition of organizational reality” (Gioia & Chittipeddi, 1991: 442).

A particularly prominent form of sensegiving in organizational accounts is framing, which has been studied across a variety of fields in social science, including media studies and communication (e.g., Entman, 1993; Scheufele, 1999; Van Gorp, 2007), public relations (e.g., Hallahan, 1999), political science (Druckman, 2001; Nelson, Oxley, & Clawson, 1997; for a review, see Chong & Druckman, 2007), and sociology (e.g., Benford & Snow, 2000; Gamson, Croteau, Hoynes, & Sasson, 1992; Goffman, 1974; Snow, Rochford, Worden, & Benford, 1986). Despite some differences in the research focus across these fields, frames are commonly understood as “schemata of interpretation” (Goffman,

1974; Snow et al., 1986) that guide attention by selecting and highlighting some aspects of an event to make them more salient—that is, “making a piece of information more noticeable, meaningful, or memorable to audiences” (Entman, 1993: 53)—while discouraging other interpretations, thus influencing the audience’s perception of the meaning of an event. The study of framing has been particularly prominent in the literature on social movements (e.g., Polletta & Ho, 2006; Snow & Benford, 1992), and a growing number of studies in management have drawn on this sociologically informed concept of framing.¹ For instance, Wade et al. (1997) examined how compensation committees framed compensation practices by using different justification languages depending on the specific characteristics of the organization. Similarly, Fiss and Zajac (2006) studied how certain organizational characteristics influence frame choice in justifying strategic change, while Sillince and Mueller (2007) examined the reframing of responsibility accounts in the context of strategy making.

Determinants of Framing Effectiveness

While prior studies have established framing as a key aspect of organizational accounts, important questions still remain regarding why some framing languages are more effective than others in influencing the audience’s perception. In response, a few studies have begun to use framing as an independent variable. For instance, Westphal and Graebner (2010) found that the use of language concerning the board’s independence by a chief executive officer (CEO) can result in favorable board appraisal by security analysts, while Fiss and Zajac (2006) showed that framing strategic change as aligned with a dominant institutional logic elicited a more positive reaction. Although these studies have made important inroads, the actual processes of how organizational accounts become effective are still poorly understood. It is here that our current study aims to develop a more detailed understanding of which framing languages are effective under what conditions.

¹ While the use of language has been the most commonly examined aspect of framing, it is by no means the only one. The timing and location of an action, for instance, are frequently just as important for conveying meaning and thus also merit further attention by organizational scholars.

Most prior research on framing effectiveness points toward an isomorphic relationship between frame content and audience expectations—that is, the fit between the content of the frame and the audience's expectations within the overall meaning system or ideology (e.g., Babb, 1996; Benford & Snow, 2000). This notion of the alignment of frames with societal meaning systems appears appealing, yet such a notion is also based on a “referential model of language as a neutral bearer of meanings between an addresser and addressee” (Steinberg, 1998: 850), in which meaning is taken to be relatively stable and unproblematic. This assumption seems problematic, because cultural meaning systems tend to be multivocal, fractured, and ambiguous (Friedland & Alford, 1991). Instead, it seems more likely that successful alignment resulting in framing effectiveness will happen not at the level of the overall meaning systems or “culture out there” (Benford & Snow, 2000: 622), but at the level of the specific event being matched to a particular set of expectations and assumptions. This issue would appear to be particularly salient in situations in which organizational actions are potentially ambiguous, such as with the adoption of a controversial practice that involves active contestation and conflicting rationales (e.g., Fiss & Zajac, 2004; Lounsbury, 2007). In such situations, framing may not only involve avoiding an opposing narrative, but also crafting an account that better aligns the practice with the dominant institutional logic. This suggests a need for an intermediate approach that goes beyond the current perspective of alignment with overall meaning systems, focusing instead on a more fine-grained understanding of how framing effectiveness is achieved when a specific event and the audience's expectation are matched.

DEVELOPMENT OF HYPOTHESES

Framing Effectiveness and Regulatory Focus

In order to advance our current understanding of framing effectiveness, we follow prior studies that have called for an examination of the cognitive processes underlying the process of meaning making (e.g., George, Chattopadhyay, Sitkin, & Barden, 2006; Kennedy & Fiss, 2009) by connecting sociological arguments on framing to current work in social psychology. In particular, we draw on recent work on regulatory focus theory (e.g.,) to understand different ways in which frames can be crafted

so that they are better aligned with the dominant institutional logic.

Regulatory focus theory (Crowe & Higgins, 1997; Higgins, 1997, 1998) suggests that human behavior is fundamentally driven by dispositionally or situationally determined sensitivities to gains or losses. Building on the idea of self-regulation—the notion that actors adjust their behavior in relation to both desired and undesired end-states—regulatory focus theory discerns two fundamental motivational orientations in which people pursue a goal: a *promotion* focus, which is concerned with advancement, growth, and accomplishment, and involves sensitivity to positive outcomes; and a *prevention* focus, which is concerned with security, safety, and responsibility, and involves sensitivity to negative outcomes (Crowe & Higgins, 1997). According to the theory, some individuals are more concerned with the presence or absence of positive outcomes (promotion focus) when pursuing a goal, and are motivated to ensure the presence of gains and the absence of nongains. In contrast, others are more concerned with the presence or absence of negative outcomes (prevention focus), and are motivated to ensure the presence of nonlosses and the absence of losses.

Particularly relevant to our current study, recent research has shown that an individual's regulatory focus can be situationally induced by the context or specific stimuli such as framing—that is, by communicating a promotion focus on gains or nongains, or a prevention focus on losses or nonlosses. Framing an outcome in terms of gains or nongains activates a promotion focus, whereas framing an outcome in terms of losses and nonlosses activates a prevention focus (Shah, Higgins, & Friedman, 1998). As a result, gain-or-nongains framing makes a current goal seem like a maximal goal by emphasizing the gains that stem from successfully achieving a desired end-state, while losses-or-nonlosses framing makes a current goal seem like a minimal goal by emphasizing successfully attaining a desired end-state of the absence of a negative outcome.

Regarding the adoption of a poison pill, the goal-framing challenge for firms involves focusing investors' attention on how that adoption is related to shareholder value, which currently presents the dominant institutional logic among U.S. investors (e.g., Lok, 2010; Useem, 1993). In framing the adoption of a poison pill, regulatory focus theory suggests that firms may align their adoption announcement with the notion of shareholder value by conveying that (a) the adoption of a poison pill will

increase shareholder value (a focus on *gains*), or that (b) the adoption of the pill ensures the protection of shareholder value (a focus on *nonlosses*). Extending the argument that framing aligned with the dominant institutional logic of shareholder value management results in a favorable perception by investors and a positive stock market reaction in turn (e.g., Fiss & Zajac, 2006; Zajac & Westphal, 2004), we expect firms that employ each of these framings (as opposed to no such framing) to receive a positive market reaction to the announcement of the adoption of a poison pill. Therefore we hypothesize as follows:

Hypothesis 1a. Announcements of poison pill adoption using a shareholder value enhancement framing will be positively associated with the stock market reaction.

Hypothesis 1b. Announcements of poison pill adoption using a shareholder value protection framing will be positively associated with the stock market reaction.

While both shareholder value enhancement framing and shareholder value protection framing are thus, in principle, aligned with the dominant logic of shareholder value, they differ in their associated goals. Shareholder value *enhancement* framing focuses on gains and implies a maximal goal that a firm aspires to achieve—that is, further increasing shareholder value. On the other hand, shareholder value *protection* framing focuses on nonlosses and reflects a minimal goal, such as protecting the current shareholder value. In testing regulatory focus theory, Liberman, Idson, and Higgins (2005) found that, for positive outcome conditions such as the one relevant here, gains are perceived more strongly than nonlosses. Furthermore, several studies have found that, in positive outcome conditions, using promotion-focused framing is more effective for individual judgment and behavior than using prevention-focused framing, because achieving a maximal goal should be more pleasurable than achieving a minimal goal (Monga & Zhu, 2004; Sacchi & Stanca, 2014). For example, Idson, Liberman, and Higgins (2000) found that when a given scenario is described in terms of either monetary gains or monetary nonlosses, respondents reacted positively to both wordings, but felt more positive about gains than nonlosses. Likewise, Liberman et al. (2005) found a similar pattern of results in which gains were perceived as more

intensely positive than nonlosses when evaluating negotiation fairness.

These arguments and findings carry implications for our understanding of frame alignment with a dominant logic using a promotion and/or prevention focus. Specifically, since the dominant logic of shareholder value implies a positive outcome condition in which investors expect a firm's shareholder value to be enhanced, using a promotion-focused framing should be more effective than using a prevention-focused framing. We would thus expect the positive market reaction to be more intense for shareholder value enhancement framing than for shareholder value protection framing.

Hypothesis 2. Announcements of poison pill adoption using a shareholder value enhancement framing is more positively associated with the stock market reaction than is using a shareholder protection framing.

Framing Effectiveness and Source Credibility

The effectiveness of organizational accounts is not disconnected from source credibility; it matters *who* is speaking. In fact, as early as the 1950s, Hovland and Weiss (1951: 647) concluded that “the effect of an untrustworthy communicator is to interfere with the acceptance of the material.” More recently, Druckman (2001) argued that source credibility may be a prerequisite for successful framing and called for study of the limits of framing effects. Likewise, the social movement literature indicates that it is not only the content of a frame, but also the identity of a frame articulator—and especially her or his credibility—that influences frame effectiveness (e.g., Benford, 1993). While prior studies in the impression management theory tradition have focused on the role of a spokesperson in maintaining organizational legitimacy (Elsbach, 1994; Giacalone & Rosenfeld, 1989, 1991), studies on organizational framing have not investigated the role of speaker identity and credibility in affecting audience responses.

In a review of several decades of research on source credibility, Pornpitakpan (2004) has suggested that two factors are commonly identified as the main dimensions of source credibility: expertise and trustworthiness. *Expertise* refers to the extent to which a speaker is perceived to possess knowledge relevant to the issue and is thus capable of making correct assertions, while *trustworthiness* refers to the degree to which audiences believe that

the assertions the speaker makes reveal what he or she knows (Lupia, 2000; Pornpitakpan, 2004). For firms adopting a poison pill, there are two kinds of actor in particular who are likely to make statements *and* to have the relevant knowledge regarding the effect of adopting a poison pill: the CEO, as the top executive; and the chair of the board of directors, as the board's representative. Both actors are usually involved in the adoption of a poison pill, and are expected to have the required expertise about its value and effect for their specific company. However, the second aspect of source credibility, trustworthiness, is likely to differ depending on whether the announcement is made by a CEO who is also the chair of the board—that is, a dual CEO/chair. Studies in the corporate governance literature have argued that CEO duality promotes managerial entrenchment from an agency perspective (e.g., Fama & Jensen, 1983) because it reduces the board's monitoring effectiveness (e.g., Kesner & Johnson, 1990; Rechner & Dalton, 1991). In the case of poison pill adoption, CEOs are among the primary beneficiaries of poison pills and thus have a direct interest in their adoption. The presence of an independent board chair can lessen concerns over managerial entrenchment. In contrast, such concerns may be much more severe if the announcement emanates from a CEO who is simultaneously the chair of the board, because the absence of an independent board chair implies no additional controls over potential managerial entrenchment. As prior work has indicated, investors are less likely to believe speakers when they are perceived to have situational incentives (Mercer, 2004; Thayer, 2011). Accordingly, we would expect a more negative market reaction to the adoption of a poison pill when the framing emanates from a dual CEO/chair. Therefore we hypothesize as follows:

Hypothesis 3. The framing of a poison pill adoption by a dual CEO/chair will be negatively associated with the stock market reaction.

While we therefore expect a lack of perceived source credibility to have a negative effect on framing effectiveness, this effect is likely to be influenced by other speaker attributes. For instance, the standing of the speaker in the eyes of the audience is likely to affect credibility and persuasiveness (McGuire, 1985). In particular, we would expect the visibility of a frame articulator to enhance the effect of credibility on framing effectiveness. Prior studies have shown that higher visibility from repeated exposure influences the target audience's

attitude and evaluation toward an object (Hawkins & Hoch, 1992; Zajonc, 1968). For firms, visibility reflects the level of awareness and exposure that a firm receives from its stakeholders, in many cases as reflected in media coverage (Rindova, Petkova, & Kotha, 2007; Rindova, Williamson, Petkova, & Sever, 2005). For instance, Capriotti (2009) has noted that media visibility facilitates accessibility to the information, as well as reduces the level of uncertainty. A similar reasoning also applies to speaker visibility, such as that of CEOs. Prior work in the finance literature has shown that the visibility of CEOs in the media is positively associated with the explicit recognition of the CEO as a top manager by business publications (e.g., Francis, Huang, Rajgopal, & Zang, 2008). Furthermore, visibility has been shown to capture a positive tone of media coverage, as well as reputational gains based on outsider status (Rajgopal, Shevlin, & Zamora, 2006).

Taken together, the visibility of a frame articulator is likely to influence his or her credibility in at least two ways. First, a speaker's visibility acts as a key mediator for credibility (Hawkins & Hoch, 1992)—that is, framing emanating from a more visible speaker is believed to be more credible. As Higgins and Bannister (1992: 30) note, a firm's credibility will be significantly enhanced “if the CEO is highly visible, widely known and can effectively communicate the company's future strategic direction.” Second, visibility matters even more when there is a credibility problem, since “media coverage may help remove some uncertainty, bring in more transparency, add credibility, and highlight the viability of future projects” (Nguyen, 2009: 2). In other words, in situations in which audiences have trouble observing an organization's true intentions, visibility will positively affect audiences' expectations by making it easier for them to obtain information about the organization and its action. Accordingly, we would expect a less negative market reaction to the adoption of a poison pill when the framing emanates from a highly visible CEO/chair.

Hypothesis 4. The visibility of the CEO/chair will weaken the negative effect of framing by the CEO/chair on the stock market reaction.

Moderating Role of Adoption Context

While we have so far focused on frame content and the credibility of the frame articulator, the effectiveness of framing also depends on the context in which the organizational accounts are offered

and received. As Benford and Snow (2000: 620) suggest, frames become more effective to the extent that they have empirical credibility: "Can the claims be empirically verified? Is there something out there that can be pointed to as evidence of the claim embedded in the framing?" In line with this argument, McCammon, Muse, Newman, and Terrell (2007), studying the political success of the U.S. women's jury movement, found that the broader context in which framing takes place influences the effectiveness of framing. However, this moderating role of context has so far largely been neglected in empirical studies of framing effectiveness, particularly in the management literature. Therefore we now turn to two contextual factors that may further influence the effectiveness of frame content and the credibility of the frame articulator: the audience's perception of the organizational context in which the practice is adopted, and the prevalence of the practice itself.

Prior firm performance. Prior research in the behavioral finance literature suggests that investors strongly rely on trends and consistency, such as a firm's prior performance, in forming investment decisions (e.g., Chan, Frankel, & Kothari, 2004; He & Shen, 2010). Contrary to the classical view that a stock's expected returns are determined by its systematic risk, this approach argues that investors tend to extrapolate from evidence of prior performance, particularly recent performance (Barberis, Shleifer, & Vishny, 1998; De Bondt, 1993; He & Shen, 2010). For instance, De Bondt (1993) found from lab experiments that participants shown bull market prices predicted a continued rally in stock prices, while those presented with bear market prices predicted a future drop in stock prices. This work suggests that good prior performance may predispose investors to assume incorrectly a continued high performance, while weak prior performance may lead investors to expect continued weak performance. Such biases are likely to generate both overreaction and underreaction (Hong & Stein, 2002; Thaler, 2005), and may reinforce the effect of other information. For instance, Wade, Porac, Pollock, and Graffin (2006) demonstrated that the effect of CEO certifications on investor reaction is more favorable when prior firm performance has been high and more negative when performance has been low. Building on these insights, it seems likely that prior performance measured by a firm's financial record will affect the effectiveness of organizational accounts. For example, Siegel and Brockner (2005) found that external claimed hand-

icaps (a form of anticipatory accounts) had a negative impact on firm value when prior firm performance was favorable, while Fiss and Zajac (2006) also suggested that the framing of controversial actions will depend on a firm's prior financial record. In particular, framing effectiveness may depend on the consistency between frame content and source credibility, on the one hand, and the relevant reference point based on performance information, on the other (Ruth & York, 2004). For the current context, we thus suggest that if a firm's financial performance has been high in the recent past, investors are more likely to give credence to a firm's statement that the adoption of a poison pill is indeed in line with their interests, either by contributing to further increase in shareholder value (gains) or by maintaining the current level of high returns (non-losses). Prior high performance is also likely to weaken concerns regarding source credibility, since high returns would appear to provide investors with evidence that CEO duality may, in fact, not be detrimental to their interests. However, weak prior financial performance is likely to lead investors to doubt a framing that aligns poison pill adoption with their interests and also to cast further doubt on the credibility of a dual CEO/chair who evidently has not been able to deliver high returns to shareholders. In combination, these arguments suggest that high prior firm performance will positively influence the effect of both frame content and source credibility on stock market reaction. Therefore we hypothesize as follows:

Hypothesis 5a. Greater prior firm performance will enhance the positive effect of shareholder value enhancement framing and shareholder protection framing on the stock market reaction.

Hypothesis 5b. Greater prior firm performance will weaken the negative effect of the framing by a dual CEO/chair on the stock market reaction.

Adoption prevalence. Regarding the practice itself, a key issue identified by the prior literature relates to the practice's prevalence and momentum surrounding the adoption of organizational practices (e.g., Abrahamson & Rosenkopf, 1997; Persons & Warther, 1997). In particular, prior research has demonstrated the effect of adoption momentum on subsequent adoptions based on information cascades (e.g., Bikhchandani, Hirshleifer, & Welch, 1992; Pollock, Rindova, & Maggitti, 2008; Rao,

Greve, & Davis, 2001). During information cascades, the choices of early adopters provide valuable information for later adopters, leading to a sequential decision process whereby later choices are driven primarily by the public information about adoptions, rather than by the private information of subsequent adopters (Banerjee, 1992; Rao et al., 2001). While arguments based on information cascades primarily focus on the effect that public information has on other potential adopters, it seems likely that adoption prevalence will also affect other audiences and their evaluation of a practice, especially if that practice is contested and thus of particular interest to stakeholders. For instance, investors are likely to pay more attention to events that are of heightened interests in the market. As more organizations adopt a practice relevant to investors' interests, the practice itself becomes the focus of increased attention as markets become concerned about its impact on shareholder returns. These arguments build on prior work on intercascade effects among investors, which suggest that "the availability of information about actions in another community [will] also moderate the effects of recent attention and evaluations in the focal community" (Pollock et al., 2008: 342). Extending these arguments, we suggest that the number of recent prior poison pill adoptions will amplify the effectiveness of framing. Specifically, as adoption prevalence increases, greater availability of information about adoptions and heightened investor attention will increase the positive effect of framing that aligns poison pill adoption with their interests. Accordingly, we suggest that the number of recent poison pill adoptions will increase the positive effect of frame content.

Hypothesis 6. The number of recent poison pill adoptions will enhance the positive effect of shareholder value enhancement framing and shareholder value protection framing on the stock market reaction.

DATA AND METHODS

Sample

Our initial sample comprised all NYSE- and AMEX-listed U.S. firms that adopted a poison pill for the first time between 1983 and 2008, for a total sample of 1,398 firms.² We collected data on poison

pill adoption from SDC Platinum, and carefully compared the details and announcement dates of each poison pill with actual adoption date press releases found on PR Newswire and Business Wire. About 15% of the adoptions did not have an accompanying press release and these were excluded from our sample. Following prior event studies, we also excluded cases with confounding events during the event window. "Confounding events" can be defined as other events occurring simultaneously with poison pill adoption that may also affect investor reaction. We referred to Ryngaert (1988) for a comprehensive list of confounding events, eliminating about 30% of cases because of the simultaneous announcements of earnings, stock repurchase, stock split, recapitalization, divestiture, acquisition, and a change in the dividend. This number is comparable to that of Ryngaert (1988), who excluded 25.5% of poison pill adoptions between 1982 and 1986 owing to confounding events. Among all valid poison pill adoptions with accompanying press releases from 1984 to 2008, a total of 789 poison pill adoptions had no confounding event across all event windows and comprise our final sample.³

Dependent Variable

The *stock market reaction* to an organizational event represents an important indicator of short-term performance because it measures the impact of a specific event on the value of a firm. We used standard event study methodology to measure stock market reaction to the adoption of a poison pill (Bowman, 1983; Brown & Warner, 1985). This method proceeds as follows.

First, the rate of return on the stock price of firm i on day t is expressed as:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it} \quad (1)$$

where:

R_{it} is the rate of return on the stock price for firm i on day t ,

cluded mutual funds, real estate investment trusts (REITs), and other investment companies following the finance literature, since these types of entity operate differently from firms dealing with other goods and services.

³ We performed a series of t -tests based on firm size, performance, industry distribution, poison pill characteristics, and M&A speculation for firms included in the final sample and those dropped because of confounding events, and found no systematic differences.

² We excluded poison pills adopted at the time of spinoff and initial public offering (IPO). In addition, we ex-

R_{mt} is the rate of market return on day t , and β_i is the systematic risk of firm i , which measures the relative tendency of firm i 's stock return (R_{it}) to move along with the market (R_{mt}).

We used the Center for Research in Security Prices (CRSP) value-weighted market index as the proxy, following prior studies that examined stock market reaction to poison pill adoptions (e.g., Comment & Schwert, 1995). Term α_i is the intercept—that is, the rate of return for firm i when R_{mt} is zero—and ε_{it} is the error term with $E(\varepsilon_{it}) = 0$.

Next, from equation (1), we derive estimates of daily abnormal returns (AR_{it}) for the i th firm as follows:

$$AR_{it} = R_{it} - (a_i + b_i R_{mt}) \quad (2)$$

where a_i and b_i are the ordinary least squares (OLS) parameter estimates of α_i and β_i obtained from the regression of R_{it} on R_{mt} over an estimation period preceding the event.

In the current study, market model parameters were estimated over a 255-day period starting 46 days prior to the adoption announcement using EVENTUS (e.g., Pfarrer, Pollock, & Rindova, 2010; Wade et al., 2006). The resulting abnormal returns (AR_{it}) can then be cumulated over a number of days to derive a measure of the CAR for each firm. We used this CAR—that is, the cumulative difference between a firm's actual return and its expected return—during a specified period in the current study.

For the event period, we used a three-day event window (t_{-1} to t_{+1}) and conducted additional analyses for two-day (t_0 to t_{+1} and t_{-1} to t_0) and five-day (t_{-2} to t_{+2}) event windows for thoroughness. Two-day and three-day event windows have been widely used in studying stock market reaction to poison pill adoptions in the finance literature (Brickley et al., 1994; Choi, Kamma, & Weintrop, 1989; Comment & Schwert, 1995; Datta & Iskandar-Datta, 1996; Malatesta & Walkling, 1988; Ryngeart, 1988). These event windows are appropriate since they capture the potential leakage of information prior to unexpected events and also the slow responses on the day after the event (e.g., McWilliams & Siegel, 1997; Pfarrer et al., 2010; Zhang & Wiersema, 2009). Finally, the event date (t_0) is the first public release date of the information. Since poison pill adoption does not require shareholder approval and does not have corresponding proxy statements (Sundaramurthy, Mahoney, & Mahoney,

1997), we define the event date (t_0) as the first public announcement date of poison pill adoption as it appears in PR Newswire and/or Business Wire.

Independent Variables

Adoption of a poison pill is usually announced through press releases and filed using U.S. Securities and Exchange Commission (SEC) Form 8-K. While a large part of the press release is used to describe the technical features of the poison pill in detail, such as its type, duration, and minimum flip-in percentage, organizations also provide accounts to justify the adoption of the poison pill or to disclose additional information. For instance, an excerpt from the press release of one of the earlier pills adopted by Tandem Computers in 1985 contains the following statements:

The rights are designed to assure that all Amsted stockholders receive fair and equal treatment in the event of any proposed takeover of the company and to guard against partial tender offers and other coercive tactics to gain control of Amsted without paying all stockholders a control premium . . . “The rights are intended to enable all Amsted stockholders to realize Amsted's long-term value. They do not prevent a takeover, but should encourage anyone seeking to acquire the company to negotiate with the board prior to attempting a takeover,” said Robert H. Wellington, Amsted's president and CEO . . .

We coded the press releases announcing poison pill adoption for the presence of different framing languages. After reviewing these press releases, we developed descriptions of the gains and nonlosses frames regarding poison pill adoption. Three business school graduate students (one being the first author) performed the content analysis and categorized framing languages surrounding the adoption from an iterative process of analyzing the press releases. Interrater reliability was good (Cohen's kappa = .84), suggesting consistency across the three coders.

Shareholder value enhancement framing. To represent a *shareholder value enhancement framing*, an announcement statement had to (a) point to the gains to be realized by shareholders following adoption, or (b) assure that the adoption “[does] not close off possible advancements” (Cesario, Higgins, & Scholer, 2008: 445). A dummy variable was coded “1” if statements in line with these appeared in an announcement. Examples of the first criterion included: “The plan is intended to assist the company to pursue its long-term business strategies and

enhance shareholder value,” “The [shareholder rights plan is] intended to enable all Gannett stockholders to realize the long-term value of their investment in the company,” and “The rights will assist the board of directors in maximizing long-term value for the company’s shareholders.” Examples of the second criterion involve statements asserting that the adopted poison pill will not prevent future takeover offers as long as they are beneficial to shareholders: “The right plan will not restrict consideration by the board of any offer on terms favorable to all shareholders,” “[The pill] is not intended to restrict the company’s ability to enter into future acquisition transactions,” and “Our plan will not prevent an acquisition of the company on terms that the Board considers are in the best interests of all shareholders.” Note that these statements are different from shareholder value protection framing in that they are focused on reassuring opportunities for gains that may accompany the adoption.

Shareholder value protection framing. Turning now to the *shareholder value protection framing*, an announcement statement had to emphasize explicitly that the poison pill was designed (a) to prevent negative outcomes or (b) to ensure fair treatment in the event of a takeover. A dummy variable was coded “1” if any expression in line with this appeared in the announcement statement. Examples of the first criterion included statements such as: “The rights provide protection against coercive and unfair takeover tactics,” “The Shareholder Rights Plan protects our shareholders against coercive and abusive acquisition techniques,” and “The rights are designed to guard against partial tender offers, squeeze-outs, open market accumulations and other coercive and unfair tactics.” Examples of the second criterion include statements such as: “The intent of the plan is to ensure the fair treatment of all stockholders in the event that a takeover offer is made in the future,” “The rights are designed to assure that all Amsted stockholders receive fair and equal treatment in the event of any proposed takeover of the company,” and “The plan is designed to assure stockholders fair value in the event of a future unsolicited business combination or similar transaction involving the company.”

Framing by the dual CEO/chair. We collected data on *framing by the dual CEO/chair* directly from the press releases by identifying who was quoted in the press release when announcing poison pill adoption. For instance, an excerpt from the

press release by Bank of Boston in 1990 contains the following quote from its CEO/chair:

Ira Stepanian, Bank of Boston chairman and CEO, said, “Our primary objective in acting to protect the interests of our stockholders is to build long-term value in their investment. This is a prudent and common action designed to ensure that all stockholders receive fair and equal treatment in the event of a takeover attempt.”

Our measure is a dummy variable coded “1” when a dual CEO/chair is quoted in the firm’s press release in this way. Among 789 poison pill adoptions in our sample, 252 announcements were made by a CEO/chair. A further 110 announcements were made by a CEO and 75 by an independent chair, while 24 announcements were made by others such as a vice president or a public relations agency. For the remaining 328 announcements, no speaker was quoted.

Speaker visibility. We measured *speaker visibility* by counting the total number of times that a frame articulator was mentioned in the media during the one-year period prior to poison pill adoption. Data were collected by entering the name of the frame articulator into the LexisNexis database. Media sources were limited to five business publications that cover the entire sample period: *Wall Street Journal*, *Financial Times*, *Business Week*, *The Economist*, and *Forbes*.⁴

Prior firm performance. *Prior firm performance* was operationalized using return on equity (ROE), which captures the efficiency with which shareholders’ investments are managed (Chaganti & Damanpour, 1991), aligning it with the standard concerns of agency theory (Peng, 2004).

Number of recent adoptions. The *number of recent adoptions* was operationalized as the natural log of the total number of poison pill adoptions in

⁴ As a further robustness check, we collected additional data about *speaker reputation*. We followed Johnson, Young, and Welker (1993) in collecting data for CEO reputation from *Financial World’s* “CEO of the Year” awards. This data covered about 76% of our sample, between 1984 and 1997. However, in only 24 cases was a CEO engaged in framing also listed with an award, and the limited number of cases does not allow us to draw clear conclusions. However, consistent with the findings of Rajgopal et al. (2006), this prestige measure is positively and significantly correlated with our visibility measure ($r = .14, p \leq .001$). Additionally controlling for this measure has no substantive effect on our results.

the previous year. Data on the number of poison pill adoptions were collected from SDC Platinum.

Control Variables

Firm characteristics. *Firm size* has been found to be negatively associated with the stock market reaction, since antitakeover practices are generally more effective in discouraging takeovers of larger firms (Agrawal & Mandelker, 1990; Sundaramurthy et al., 1997). Therefore we controlled for firm size using a natural log of total assets. We control for *M&A speculation* faced by adopting firms because firms under (potential) takeover threat are likely to experience more negative market reaction when adopting a poison pill (Comment & Schwert, 1995; Ryngaert, 1988; Sundaramurthy et al., 1997). Following Ryngaert (1988), data were gathered from the SEC's Schedule 13 disclosure that investors are required to file upon crossing a 5% threshold, and also by searching the LexisNexis database for news and rumors about current or recent acquisition offers during a one-year period prior to the poison pill adoption.

Corporate governance characteristics. We controlled for *CEO duality*, since prior studies have found that CEO duality negatively influences stock market reaction to the adoption of antitakeover practices (Sundaramurthy et al., 1997). We further controlled for the *proportion of institutional investors*, since prior studies have found that stock market reaction to the adoption of antitakeover practices is less negative for firms with larger institutional ownership because of the monitoring role played by such investors (Agrawal & Mandelker, 1990; Johnson & Meade, 1996; Sundaramurthy, 2000). Data on institutional ownership were collected from the *Standard & Poor's Stock Guide*. In keeping with prior studies, we controlled for the *proportion of outsiders on the board*, since it has been shown that the fraction of outside directors on the board is positively associated with the stock market reaction to the adoption of antitakeover practices (Brickley et al., 1994; Sundaramurthy et al., 1997). We collected data on the proportion of outsiders on the board from proxy statements. In addition, we controlled for whether the board was a *classified board*—that is, a board segmented into classes, with one class standing for election each year—since firms with a classified board may experience a more negative stock market reaction when adopting a poison pill, because classified boards make it more difficult for potential acquirers

to remove the poison pill (Ryngaert, 1988). Data on classified boards were collected from proxy statements as well.

Announcement characteristics. We also controlled for several factors in the press releases that could influence how investors interpreted the information regarding poison pill adoptions. *Word count* in each press release was controlled for, since lengthier texts are likely to contain more information about the poison pill adoption, reducing information asymmetry for shareholders (Buskirk, 2011; Nofsinger, 2001). In addition, we controlled for *positive emotion* in the press release, since it has recently been argued that emotions present in the media influence stock market reaction (e.g., Tetlock, 2007; Tetlock, Saar-Tsechansky, & Macskassy, 2008). Following Pfarrer et al. (2010), we used the text analysis software Linguistic Inquiry and Word Count (LIWC) to create a ratio of each press release's positive emotion content to its total emotion content.

Poison pill characteristics. We controlled for pill characteristics, since some features of a poison pill are considered more shareholder-friendly than others, which may affect stock market reaction (Glegg & Madura, 2008). We interviewed six professionals with in-depth knowledge of poison pills, consisting of law school professors and M&A lawyers, to identify which characteristics of poison pills should be considered more shareholder-friendly. Based on our interviews, we identified the *duration* and *trigger percentage* of a poison pill as the most influential elements affecting its shareholder-friendliness: The longer the duration and lower the trigger percentage, the less shareholder-friendly the pill. Duration of a poison pill was operationalized as the number of years, while trigger percentage was operationalized by the minimum flip-in percentage of a poison pill. Data on both measures was collected from SDC Platinum.

Year of adoption. A dummy variable was coded "1" for each year to control for unobserved year-fixed effects. Year-fixed effects are included in all models, but owing to the large number of controls coefficients for these, dummy variables are not reported in the tables.

Method of Analysis

We follow prior event studies on the stock market reaction to poison pill adoption (e.g., Comment & Schwert, 1995) in using OLS regression analysis with year-fixed effects to estimate the effect of

TABLE 1
Descriptive Statistics and Pearson Correlation Coefficients^a

	Mean	SD	1	2	3	4	5	6	7	8
1. Stock market reaction (-1, +1)	0.0016	0.04								
2. Stock market reaction (0, +1)	0.0019	0.04	0.81*							
3. Stock market reaction (-1, 0)	0.0008	0.04	0.81*	0.50*						
4. Stock market reaction (-2, +2)	0.0031	0.05	0.71*	0.57*	0.56*					
5. Shareholder value enhancement framing	0.61	0.49	0.10*	0.09*	0.07*	0.08*				
6. Shareholder value protection framing	0.80	0.40	0.02	0.00	0.02	0.03	0.20*			
7. Speaker: CEO/chair	0.32	0.47	-0.07*	-0.04	-0.07*	-0.05	0.20*	0.10*		
8. Speaker visibility	9.50	18.59	-0.02	-0.04	-0.01	0.02	0.10*	0.09*	0.27*	
9. Prior firm performance ^c	0.14	1.98	-0.01	-0.02	0.02	0.00	0.00	0.02	-0.01	-0.01
10. Number of recent adoptions ^{b,c}	4.67	0.79	-0.01	-0.01	-0.05	-0.05	0.00	0.00	0.05	-0.02
11. Firm size ^b	6.46	1.68	0.00	-0.04	0.02	-0.02	0.01	0.02	0.20*	0.23*
12. M&A speculation ^c	0.20	0.40	-0.03	-0.02	-0.06	0.02	0.00	-0.05	-0.04	0.07*
13. CEO duality ^c	0.58	0.49	-0.09*	-0.03	-0.05	-0.01	0.00	-0.01	0.02	0.01
14. % institutional investors ^c	0.47	0.21	0.01	-0.01	0.03	0.00	-0.04	0.00	0.07	0.03
15. % outside directors ^c	0.69	0.15	-0.06	-0.05	-0.04	0.03	-0.02	0.04	0.12*	0.07*
16. Classified board ^c	0.59	0.49	-0.06	-0.06	-0.05	-0.02	-0.05	-0.02	0.05	-0.01
17. Word count	451.60	214.26	0.07	0.05	0.05	0.07*	0.23*	0.09*	0.05	0.07*
18. Positive emotion	0.89	0.10	-0.01	-0.02	0.02	-0.01	-0.17*	-0.10*	-0.12*	-0.08*
19. Poison pill: Duration	9.67	1.61	-0.03	-0.04	-0.02	-0.05	-0.02	-0.03	0.01	0.01
20. Poison pill: % trigger	17.33	5.50	0.01	0.02	-0.02	-0.02	-0.01	-0.01	-0.02	-0.01

^a $n = 789$.

^b Log-transformed.

^c Lagged variable.

* $p \leq .05$

framing and source credibility on stock market reaction captured by CAR.⁵ To control for potential heteroscedasticity, we used Huber-White robust standard errors for our significance tests (White, 1980).

RESULTS

Descriptive statistics and correlations for all variables are shown in Table 1. As the table shows, the mean CAR for the three-day event window (t_{-1} to t_{+1}) is 0.16%, meaning that firms announcing poison pill adoption, on average, experience a 0.16% increase in stock price. We also observe that a shareholder value enhancement framing is

less frequently used (0.61) than a shareholder value protection framing (0.80). Table 2 reports the results of OLS regression models that test the effects of the use of different framings, source credibility, and interaction terms on the stock market reaction. Model 1 represents the baseline model, which includes only the control variables, while Models 2–8 add the focal variables and interaction terms. Model 9 presents the fully specified model.

The results from testing Hypotheses 1a, 1b, and 2 show considerable support for the view that investors respond positively to framing languages that align with the dominant logic of shareholder value, but only when a certain type of framing language is used. Hypothesis 1a predicted that announcements of poison pill adoption using a shareholder value enhancement framing would be positively associated with the stock market reaction. Consistent with this hypothesis, we find support for a strong positive effect of using a shareholder value enhancement framing on the stock market reaction ($p \leq .01$ for Models 2 and 4; $p \leq .001$ for Models 5–7). Hypothesis 1b stated that announcement of poison pill adoption using a shareholder value protec-

⁵ For our study, the population of interest consists of firms that did adopt a poison pill and thus faced the challenge of providing an accompanying account for this controversial practice. Accordingly, the use of a Heckman selection model (Heckman, 1979) would not be appropriate, since this model is intended to correct for the selection bias of a nonrandom sample, thereby allowing the researcher to estimate a corrected coefficient for the full population. In our case, this would mean estimating a coefficient for framing activity by firms that never in fact adopted a poison pill, which would not be meaningful.

TABLE 1
(continued)

	9	10	11	12	13	14	15	16	17	18	19
1. Stock market reaction (-1, +1)											
2. Stock market reaction (0, +1)											
3. Stock market reaction (-1, 0)											
4. Stock market reaction (-2, +2)											
5. Shareholder value enhancement framing											
6. Shareholder value protection framing											
7. Speaker: CEO/chair											
8. Speaker visibility											
9. Prior firm performance ^c											
10. Number of recent adoptions ^{b,c}	0.00										
11. Firm size ^b	0.00	0.13*									
12. M&A speculation ^c	0.03	-0.10*	-0.06								
13. CEO duality ^c	-0.04	-0.05	0.03	0.01							
14. % institutional investors ^c	0.00	0.02	0.37*	-0.07	0.03						
15. % outside directors ^c	-0.01	-0.04	0.17*	0.08*	0.06	0.05					
16. Classified board ^c	-0.01	0.09*	-0.02	-0.11*	0.05	-0.05	-0.06				
17. Word count	0.01	-0.02	0.03	0.16*	0.03	-0.08*	0.02	0.01			
18. Positive emotion	0.01	-0.04	0.04	-0.05	0.01	0.10*	0.00	0.00	-0.11*		
19. Poison pill: Duration	0.00	0.18*	0.05	-0.20*	0.03	-0.02	-0.07*	0.14*	-0.08*	0.01	
20. Poison pill: % trigger	-0.02	0.27*	-0.02	0.06	0.00	0.04	-0.06	0.02	-0.01	-0.01	-0.01

tion framing would be positively associated with the stock market reaction. However, our findings indicate no support for this hypothesis.

Hypothesis 2 predicted that a shareholder value enhancement framing would be more positively associated with the stock market reaction than a shareholder value protection framing. We used the *suest* command, followed by the *test* command, in STATA to evaluate the null hypothesis that the coefficient estimate in one model is not significantly different from the coefficient estimate in the other model.⁶ Consistent with the hypothesis, the regression coefficient for using a shareholder value enhancement framing (0.1) is marginally different from the regression coefficient for using a shareholder value protection framing (0.01) ($p = .072$). Thus using a shareholder value enhancement framing to align a poison pill adoption with the dominant logic of shareholder value orientation appears to be more positively perceived by investors than

using a shareholder value protection framing, albeit weakly.

Regarding the effect of source credibility on the stock market reaction, Hypothesis 3 stated that the framing of poison pill adoption by a dual CEO/chair would be negatively associated with stock market reaction. We find strong support for this hypothesis in Models 5–9: There is a negative and significant relationship between framing by a CEO/chair and the stock market reaction ($p \leq .01$ for Models 5, 7, and 8; $p \leq .001$ for Models 6 and 9). Note again that this result is significant after controlling for CEO duality, which also negatively influences the stock market reaction on its own ($p \leq .01$).⁷

⁶ *suest* is a postestimation test based on the seemingly unrelated estimation procedure that allows for correlated errors across estimated models by combining the estimation results into a single, simultaneous covariance matrix. Thus it is suitable to test for intra-model and cross-model hypotheses, such as comparing the size of the coefficients of shareholder value enhancement framing and shareholder value protection framing.

⁷ An alternative explanation of the negative reaction to the framing by a dual CEO/chair might be that when executives are quoted in the press release, the firm is assumed to have underlying problems that require its senior staff to interject, while for firms without such problems a statement may merely emanate from the public relations department without directly quoting senior executives. To examine this possibility, we conducted additional analyses that added a control variable for framing by CEOs who are not simultaneously chair of the board. However, framing by such CEOs had no significant effect on the stock market reaction, making it unlikely that it is merely the quotation of top executives that accounts for our findings.

TABLE 2
Regression Models Predicting Stock Market Reaction^a

Variables	Cumulative Abnormal Return (-1, +1)								
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
Stockholder value enhancement framing		0.011** (0.003)		0.011** (0.003)	0.012*** (0.003)	0.012*** (0.003)	0.012*** (0.003)	-0.005 (0.021)	-0.004 (0.021)
Stockholder value protection framing			0.002 (0.004)	-0.001 (0.004)	-0.003 (0.004)	0.000 (0.004)	-0.000 (0.004)	-0.036 [†] (0.028)	-0.038 [†] (0.028)
Speaker: CEO/chair					-0.009** (0.003)	-0.013*** (0.004)	-0.010** (0.003)	-0.009** (0.003)	-0.014*** (0.004)
Speaker: CEO/chair*									0.000** (0.000)
Speaker visibility									0.001 (0.001)
Stockholder value enhancement framing*									0.005 [†] (0.003)
Prior firm performance									0.008* (0.005)
Stockholder value protection framing*									0.004 (0.004)
Prior firm performance									0.008 [†] (0.006)
Speaker: CEO/chair*									0.000* (0.000)
Prior performance									-0.006* (0.000)
Stockholder value enhancement framing*									-0.001 (0.001)
Number of recent adoptions									-0.003 (0.003)
Stockholder value protection framing*									-0.050 (0.037)
Number of recent adoptions									-0.000 (0.000)
Speaker visibility									-0.006* (0.006)
Prior firm performance									-0.000* (0.000)
Number of recent adoptions									-0.001 (0.001)
Firm size									-0.047 (0.038)
M&A speculation									-0.000 (0.000)
CEO duality									-0.006* (0.005)
% institutional investors									-0.009** (0.003)
% outsider directors									0.012 (0.011)
Classified board									0.012 (0.011)
Word count									0.009 (0.009)
Positive emotion									-0.008 (0.009)
Poison pill: Duration									-0.001 (0.016)
Poison pill: % trigger									-0.001 (0.016)
Constant									-0.001 (0.001)
R^2	0.081 (0.128)	0.126 (0.132)	0.081 (0.128)	0.126 (0.132)	0.146 (0.134)	0.128 (0.132)	0.151 (0.134)	0.180 (0.136)	0.168 (0.135)
Adjusted R^2	0.062	0.076	0.063	0.076	0.083	0.089	0.088	0.088	0.099
df	35,675	36,674	36,674	37,673	37,672	38,671	41,669	40,670	43,666

^a Huber-White robust standard errors in parentheses. All models also control for year (dummy variables); $n = 711$. Significance tests are one-tailed for directional hypotheses and two-tailed for control variables.

[†] $p \leq .1$
* $p \leq .05$
** $p \leq .01$
*** $p \leq .001$

Hypothesis 4 predicted that the negative effect of framing emanating from a CEO/chair would become weaker if he or she were more visible. We find support for this hypothesis in Models 6 and 9 ($p \leq .01$). To better illustrate the moderating role of the speaker's visibility on the effect of framing by a CEO/chair, results from Model 6 are graphically shown in Figure 2 using the *predxcon* command in STATA, adjusting for the main effects. As illustrated, speaker's visibility has a positive effect on stock market reaction when the speaker is a CEO/chair, but not when the speaker is someone else. In fact, the figure illustrates that when the speaker is not a CEO/chair, greater visibility negatively influences stock market reaction. For instance, an increase of speaker's visibility by 1SD above the mean produces a 1.72% increase in CAR when the speaker is CEO/chair and a 4.3% decrease in CAR for all others.

In terms of the organizational context in which a poison pill is adopted, Hypothesis 5a stated that greater prior firm performance would enhance the positive effect of both shareholder value enhancement framing and shareholder value protection framing on the stock market reaction. Our results find partial support for the Hypothesis 5a in Models 7 and 9. While we find no significant interaction of shareholder value enhancement framing and prior performance, the results indicate a marginally significant effect of using a shareholder value pro-

tection framing when prior firm performance was strong ($p \leq .1$). Hypothesis 5b predicted that greater prior firm performance would weaken the negative effect of the framing by a dual CEO/chair on the stock market reaction. We find considerable support for this hypothesis in Models 7 and 9, in which the coefficient of the interaction term is positive and significant ($p \leq .05$)—that is, when the firm adopting a poison pill has performed well in the near past, framing by a CEO/chair is perceived more positively by investors in the stock market. Again, results from Model 7 are graphically shown in Figure 3, which illustrates a significant improvement in the stock market reaction for a CEO/chair when prior firm performance has been strong. For instance, an increase of prior firm performance by 1SD from the mean results in a 9.57% increase in CAR when the speaker is a CEO/chair and a 2.06% decrease in CAR for all others.

Hypothesis 6 stated that the number of recent poison pill adoptions would enhance the positive effect of using shareholder value enhancement framing and shareholder value protection framing on the stock market reaction. We again find only partial support for this hypothesis in Models 8 and 9. Specifically, results suggest that while the number of recent poison pill adoptions does not enhance the effect of using a shareholder value enhancement framing, it positively enhances the effect of using a shareholder value protection fram-

FIGURE 2
Interaction between the Framing by a Dual CEO/Chair and Speaker Visibility

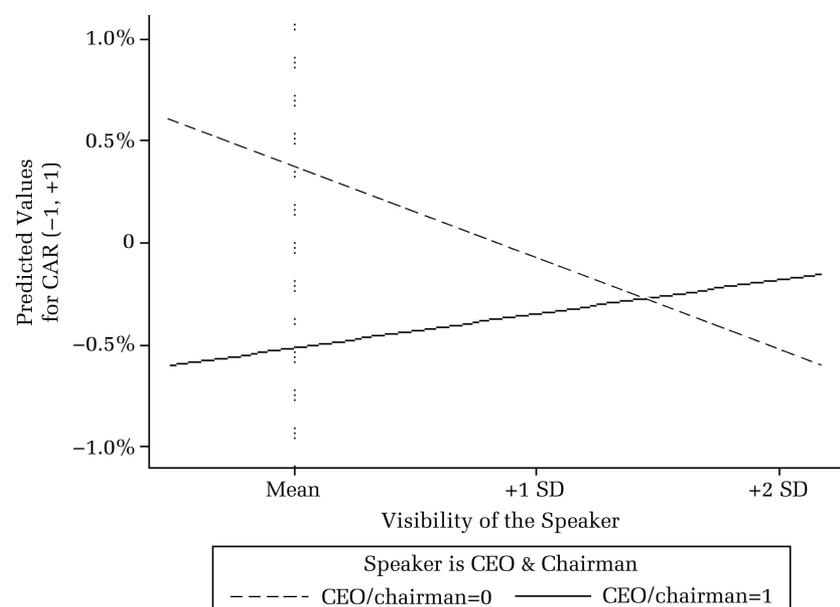
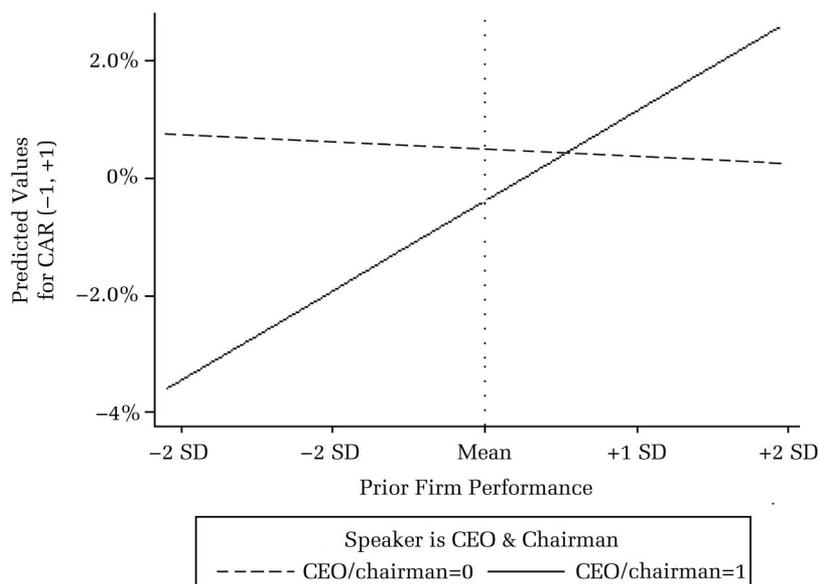


FIGURE 3
Interaction between the Framing by a Dual CEO/Chair and Prior Firm Performance



ing ($p \leq .1$), although significance is only marginal.

Regarding control variables, the results show that CEO duality is negatively associated with stock market reaction ($p \leq .01$), in line with previous studies. Also, word count in the press release is positively associated with the stock market reaction, suggesting that longer press releases containing more information about the poison pill adoption may influence investors' perceptions by decreasing information asymmetry, leading to positive stock market reaction.

Supplementary Analyses

In addition to the regression analysis above, we follow prior studies (e.g., Lee, 2001; Pfarrer et al., 2010) by also comparing the mean CARs for different categories of case, as shown in Table 3.⁸ We first

⁸ We also examined the robustness of our findings by testing the hypotheses using alternative event windows other than the three-day event window (t_{-1} to t_{+1}) that we used to report the results. Specifically, we also estimated models using two different two-day windows (t_{-1} to t_0 ; t_0 to t_{+1}), as well as a more extensive five-day event window (t_{-2} to t_{+2}). In the results not reported here, Hypotheses 1a and 2 are confirmed across all event windows. Hypothesis 3, regarding the negative effect of the speaker being a dual CEO/chair on the stock market reaction, holds for all event windows except (t_0 to t_{+1}). Hypothe-

sis 4, regarding the moderating role of speaker visibility on the negative effect of the framing by a CEO/chair, is found to be significant for the two-day and five-day windows (t_0 to t_{+1} ; t_{-2} to t_{+2}). Hypothesis 5a is partially supported for the five-day window (t_{-2} to t_{+2}), but for only the shareholder value protection framing. Hypothesis 5b is supported only for the two-day window (t_{-1} to t_0). Hypothesis 6 is supported across all event windows except the two-day window (t_0 to t_{+1}), but again only regarding the effect of the shareholder value protection framing. These findings may be partly attributed to the fact that stock market reaction to poison pill adoptions tends to be sensitive to the event interval chosen, as reported by Coates (2000).

confirmed that each of these CARs was significantly different from zero by using a series of t -tests. We further confirmed that the difference among coefficients was significant. In particular, Table 3 shows that the CAR for using a shareholder value enhancement framing (0.51%) is significantly larger than those for not using a shareholder value enhancement framing (-0.39%) or using no framing at all (-0.56%). These findings provide further support for the effectiveness of a framing with a focus on gains. Regarding a shareholder value protection framing, the results show that the CAR for using such a framing is greater than using no such framing or none at all, but the differences do not reach statistical significance. Finally, when the framing is offered by a dual CEO/chair, the CAR

TABLE 3
Differences between CARs for Different Categories of Framing

Category Comparison	<i>n</i>	Mean CAR	Difference ^a
Using no framing	90	-0.56%	
Shareholder value enhancement framing	484	0.51%	
vs. not using this framing	305	-0.39%	0.90% **
vs. using no framing	90	-0.56%	1.07% *
Shareholder value protection framing	635	0.20%	
vs. not using this framing	154	-0.01%	0.21%
vs. using no framing	90	-0.56%	0.76%
Speaker: CEO/chair	252	-0.30%	
Speaker: Other	537	0.38%	0.69% *

^a The difference between the mean CAR in each category is shown (e.g., 0.51% - (-0.39%) = 0.90%). Significance was determined by a *t*-test.

* $p \leq .05$

** $p \leq .01$

is significantly smaller (-0.30%) than it is when the speaker is not CEO/chair (0.38%). In terms of their size, the differences that we find in our current study are comparable to those found in other studies such as Pfarrer et al. (2010), which compared the mean CARs for stock market reaction to material surprises by firms with high reputation and celebrity.

DISCUSSION

While extant research on organizational accounts has begun to embrace the notion of framing to understand how organizations give meaning to their actions, the underlying process by which certain framing languages become effective has remained largely unexamined. In the current study, we go beyond prior research that has sought to link framing effectiveness to alignment with the dominant logic of target audiences to more closely examine the specific mechanism by which controversial practices may be framed. In particular, we show that framing effectiveness depends on *how* a controversial practice is framed to align with the dominant logic of shareholder value, *by whom* this framing is suggested, and *in what context* the organizational accounts are offered. To develop our arguments, we have drawn on prior work in social psychology—particularly regulatory focus theory and the literature on source credibility—thus connecting to prior calls for a closer engagement with the micro-mechanisms underlying framing effects (e.g., George et al., 2006).

Our study contributes to the research on organizational accounts, and to institutional theory more generally, by offering a fresh look at the determi-

nants of framing effectiveness (Benford & Snow, 2000). Prior studies have examined the consequences of framing by focusing on the alignment of frame content with the dominant logic (e.g., Fiss & Zajac, 2006). In the current study, we expand the extant literature on organizational accounts by linking to work in social psychology, thus suggesting a fine-grained mechanism of how frame effectiveness is achieved. Specifically, this study deepens the understanding of why one framing is more effective than another even though both are, in principle, aligned with the logic of shareholder value. In particular, our arguments suggest that successful alignment with institutional logics is not achieved at the level of the overall meaning system; rather, understanding this process requires a more fine-grained understanding of how framing, speaker, and context are matched with the audience's expectations regarding a specific event or action.

Moreover, our findings raise interesting questions regarding the role and characteristics of the speaker in influencing the effectiveness of organizational communication. While prior studies on organizational accounts have predominantly focused on the content of framing, little attention has been devoted to the limits or prerequisites of framing effects (Druckman, 2001). Our study suggests that the effectiveness of a given framing language should be weighed by considering the identity of the speaker in addition to the content of framing. In particular, it appears that visibility—both in terms of the frame articulator and in terms of the adopted practice—appears to play an important role in determining frame effectiveness, suggesting that framing research would do well to further consider fac-

tors that mediate the attention of key constituencies (e.g., Thornton & Ocasio, 2008).

In a similar vein, our study also has implications for recent research in behavioral finance and the sociological perspective on financial markets. Until recently, behavioral finance research has mainly focused on incorporating the cognitive processes of individual investors—that is, how heuristics and biases in decision making influence the interpretation of information and the trading behavior of investors (e.g., Thaler, 2005). For instance, studies have investigated how emotions in firm-specific news stories result in different responses in financial markets (e.g., Tetlock et al., 2008). Our research suggests that, in addition to examining the relationship between the use of words and stock market reaction, incorporating the characteristics of the speaker will shed more light on how information is interpreted among investors.

Finally, our study carries implications for event study, a widely adopted method used to examine the short-term performance of organizational actions. In terms of poison pill adoption, it has been noted that stock market reaction is usually weak and inconsistent across different studies. However, such results may stem from not simultaneously considering the frame content and speaker identity presented in adoption announcements. In particular, when certain organizational actions entail many plausible motives, incorporating such additional information will provide a better understanding of the results from event study. This builds on the arguments of other scholars (e.g., Ozcan & Overby, 2008; Schijven & Hitt, 2012), who have pointed to the need to consider the cognitive process and behavioral mechanism underlying how investors make judgments, which in turn influences stock market reaction to organizational actions.

While our study has drawn on arguments from regulatory focus theory, the question may arise whether a focus on gains and losses may not also relate to prospect theory (Kahneman & Tversky, 1979). To explain, prospect theory holds that losses are experienced more strongly than gains of similar objective magnitude based on a value function that is steeper for losses than for gains. However, notice that our current situation does not directly examine a situation of losses versus gains, but instead that of nonlosses versus gains—an important difference. For such a situation, prospect theorists have proposed that an averted loss should be more pleasant than a gain because an averted loss is again evalu-

ated in reference to the steeper “loss” portion of the value function. As a result, prospect theory would suggest a stronger effect for a prevention-focused framing (nonlosses) than a promotion-focused framing (gains)—a prediction that runs counter to that of regulatory focus theory, which holds that gains will loom larger than nonlosses, particularly under positive outcome conditions. However, as Liberman et al. (2005: 528) point out, “Kahneman et al.’s studies examined negative outcomes (i.e., losses and non-gains) but not positive outcomes (i.e., gains and non-losses).” Liberman et al. (2005) then go on to test the prediction of prospect theory for this situation, but find no support for it; instead, aligned with regulatory focus theory, they find that gains were perceived as more intensely positive than nonlosses. Since our study specifically focuses on such a situation of gains and nonlosses, regulatory focus is the more appropriate theory.

Regarding the significance of our findings, our study of poison pill adoptions found a considerable positive effect for the use of a shareholder value enhancement framing on the stock market reaction. For instance, given the average market capitalization of our sample companies (about US\$1.2 billion), using a shareholder value enhancement framing results in an average \$13.1 million increase in market value per firm—or about \$9.9 billion in market capitalization for all adopting firms. It is interesting to note that a shareholder value protection framing is generally the most frequently used account, even though our results indicate that using a shareholder value enhancement framing appears to be more effective.⁹ We can speculate that firms are less willing to announce publicly the unforeseen results of a poison pill adoption. Thus firms choose their words carefully so as not to overextend, although it appears that investors in fact may react more positively to language focused on gains, at least in the short run that we were able to capture using our measure of abnormal returns.

⁹ We also analyzed the effect of using both shareholder value enhancement framing and shareholder value protection framing simultaneously. The results suggest that using both framing languages simultaneously negatively influences the stock market reaction, albeit not very strongly. A possible explanation for this may be that framing language that simultaneously invokes maximal and minimal goals may confuse investors.

Limitations and Future Research Directions

There are several limitations to our study that should be noted. First, we have focused on a fairly short event window. While this approach is in line with standard event study methodology and avoids contamination by confounding events, we are not able to examine here whether the framing effects are durable in nature or may instead dissipate rather quickly. While a short-term effect appears evident, more work is needed to understand possible long-term effects of framing, as well as the moderators of such effects. For instance, it would be worthwhile to consider the extent to which future framing attempts are, in fact, constrained by previous framings and the consistency between positions taken.

Second, in considering the identity of the frame articulator, we have primarily focused on source credibility stemming from the speaker's trustworthiness, assuming that CEO and chair of the board have the needed expertise. However, it is possible that the CEO and chair of the board may have different levels of expertise in dealing with poison pill adoption deriving from their prior experience, and that market reaction may reflect such differences. In addition, other aspects of credibility, such as personal or firm reputation or status, could also influence the effectiveness of framing. Thus further empirical studies are needed to examine how different sources of credibility affect frame resonance—or indeed how these sources may interact.

We also did not examine here the role of media reaction to the announcement of poison pills. Media attention plays an important role in the evaluation of firm actions (e.g., Pollock et al., 2008), and media coverage of poison pills may allow to capture the tone of public discourse over this contested practice, which may moderate stock market sentiment and reaction (Zajac & Westphal, 2004). However, for our current study, media coverage may be less of an issue, as suggested by Davis and Greve (1997), who observed that public theorization in the media played a lesser role in poison pill adoption. As Davis and Greve (1997: 29) note, "pills spread rapidly through a board-to-board (cohesive) diffusion process in which firms adopted to the extent that their contacts had done so." They suggest a contagion account operating through board interlock ties rather than through public theorization, requiring merely evidence of their cognitive legitimacy, such as adoption by fellow board members. Still, the role of public theorization in shaping

the effectiveness of framing attempts appears to be a fruitful avenue for future research.

Furthermore, future work might begin to examine the role of additional audiences, such as stock analysts, and how the same framing might result in different reactions across diverse audiences. For the current study, as a result of the event windows commonly used it seems unlikely that analyst reports will have had a chance to affect market response, because the event window ranges from a day before the announcement to a day after the announcement and analyst reports tend to follow their own cycles, frequently taking weeks to prepare. However, a comparison of reaction across, for example, the media, stock market, and analyst reports would provide insight not only into frame effectiveness, but also into the interactions between these different audience segments.

Since regulatory focus is at least partly situationally induced (Crowe & Higgins, 1997), further attention is needed to understand how context shapes the regulatory focus of audiences. While the current study focused especially on frame content and articulators, an important extension of this research would be to further examine the contextual factors likely to shape the regulatory focus of framing targets. For instance, in a stock market environment, one might consider whether bull markets or business cycle expansion phases represent a general gains context, while bear market and contraction phases represent a general losses context. While it may be difficult to capture individual investor's dispositions by means of these market-level measures, such contextual factors may act as a lens through which audiences interpret the adoption of contested or ambiguous practices. In light of this, we believe that the current study represents an important step in opening up a line of research that provides a foundation for understanding the mechanisms of how framing becomes effective—a key issue for understanding sensegiving by organizations.

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