

Indirect Media Pressure and Governance Practices

Plenty of research and high profile examples have shown that companies change their board structure following media coverage. Forthcoming research in the Strategic Management Journal sought to discover whether companies respond to publicity about their board interlock partners – other companies with whom they share directors. The researchers examined positive and negative media coverage and found that interlock partners of the media’s target company reacted by changing elements of board structure to strengthen the governance of the firm (such as increasing board independence), regardless of the positive or negative tenor of the coverage.

Key Takeaways:

- Media coverage provokes changes in companies’ governance practices, such as increasing board independence, board evaluation, and director stock ownership, as well as leading to division of the CEO/chair roles.
- Firms respond not only to media pressure on themselves but also to media coverage on interlock partner firms – those with whom they share directors.
- Companies strengthen their governance in response to both positive and negative media coverage of interlock partners

Studying firms listed on the Toronto Stock Exchange between 2004 and 2010, the researchers tracked the adoption of 11 governance practices, such as board independence and director stock ownership along with positive and negative media coverage of firms. They found that interlock partners reacted to media coverage about as strongly as the companies named in the media accounts. The

finding that both positive and negative coverage spurred the adoption of measures that strengthened governance was unexpected, and the researchers speculated that positive media coverage drew attention to moves that strengthened governance, and led their partners to follow suit.

The researchers cautioned that their findings were based on a relatively small number of Canadian companies around the time of a financial crisis, and it is hard to know how the findings apply to other companies and circumstances. They were also unable to watch boards in action to understand their decision-making processes in detail. More research is needed to better understand how practices diffuse from across companies and times.

Source: Shipilov, A. V., Greve, H. R., & Rowley, T. J. (in press). Is all publicity good publicity? The impact of direct and indirect media pressure on the adoption of governance practices. Strategic Management Journal. DOI: 10.1002/smj.3030.

