CONTESTED INSTITUTIONAL CHANGE: EXTERNAL GOALS VERSUS
INTERNAL PERFORMANCE FEEDBACK

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Abstract

Institutional entrepreneurs frequently facilitate the spread of desired practices by inventing new performance goals for organizations, yet little is known about how organizations respond to these goals especially when institutional logic underlying these goals is contested. We combine insights from the institutional logics perspective and behavioral theory of the firm to develop a theory examining how organizations react to contested and non-contested profitability performance goals. We show how Canadian firms adopted or resisted practices related to the logic of board reform in response to aspiration-performance deviations based on two goals a) firms’ corporate governance performance score created by institutional entrepreneurs and b) firms’ profitability. We also show that these firms set their aspiration levels differently depending upon the type of performance goal they were reacting to.
Institutional change occurs as new practices spread in institutional fields, either as new layers of the existing institutions or as replacements of older institutions (Meyer & Rowan, 1977; Scott, 1995). In addition, while institutional environments are often accurately described as taken-for-granted structures comprised of a dominant logic, norms and practices, they look more like negotiated arrangements during periods of change (Dacin, Goodstein, & Scott, 2002). Indeed, scholars use political contest and social movement processes to describe institutional changes such as changing definitions of French cuisine (Rao, Monin, & Durand, 2003), environmental movements (Hoffman, 1999) and recycling programs (Lounsbury, 2001). A central strand of research in this tradition emphasizes the role of institutional entrepreneurs, who maneuver within contested fields to offer competing logics and influence others (DiMaggio, 1998). Consequently, in periods of institutional change organizations face greater uncertainty regarding the external evaluation of practice adoptions and have greater discretion to accept or resist institutional arrangements.

What factors cause organizations to adopt or reject new practices when their value is uncertain? The institutional perspective suggests that the external environment provides organizations with clues about the value of uncertain practices (DiMaggio & Powell, 1983). A common finding in this perspective is that organizations imitate the adoption decisions of others (Palmer, Jennings, & Zhou, 1993), especially when organizations are connected to prior adopters through social ties (Davis & Greve, 1997; Galaskiewicz & Burt, 1991). In contrast, the behavioral theory of the firm suggests the adoption of new practices is internally driven and determined, in large part, by the relationship between an organization’s performance and its aspiration levels (Cyert & March, 1963). When firms perform below their aspirations, they modify their behavior and adopt new practices; while performance above aspirations causes firms to resist adoption of new practices and to maintain status quo (Greve, 2003c).
The recently developed institutional logics perspective takes a middle ground and examines how both internal and external influences affect organizations' decisions to adopt new practices. Thornton and Ocasio (1999: 804) define an institutional logic as a “socially constructed, historical pattern of material practices, assumptions, values, beliefs and rules by which individuals produce and reproduce their material subsistence… and provide meaning to their social reality”. Practices that comprise institutional logics diffuse in the external environments of organizations, while internal “filters” such as an organization’s position in the field, its structure, ownership, governance and identity make organizations more or less susceptible to the adoption of logic-consistent practices (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011).

In this paper, we seek to combine insights from the institutional perspective and the behavioral view of the firm to develop a theory of organizational responses to institutional change that accounts for the external pressure and internal performance feedbacks influencing adoptions of diffusing practices. Our key insights are that internal performance feedback can act as a distinctive filter affecting organizations’ responses to institutional pressures. School systems are given standardized tests, firms are asked to seek quality and environmental certifications, and governments are given transparency and ease-of-starting-business scores. In each case the idea is that once a mutually agreed upon and uncontested goal exists, the focal organizational population will respond by adopting practices to attain this goal. However, when there is contestation between different logics, such influence attempts will not be equally successful across organizations because the goals themselves will be contested. The decision-makers’ responses to contested goals will reflect self-reinforcing divisions into adopters and non-adopters of the diffusing logic, such that adopters will also be high performers on the contested goals and who increasingly will adopt other practices consistent with these goals, while non-adopters will remain low in the contested goals and avoid adoption. Furthermore, because organizational decision makers shift attention among goals (Cyert &
March, 1963; Greve, 2008; Ocasio, 1997), the division into adopters and non-adopters of contested practices will be influenced by the firms’ attainment of commonly agreed upon and non-contested objectives, such as profitability.

This combination of insights from institutional logic and the behavioral theory of the firm allows us to develop more nuanced models of institutionalization that take into account the feedback cycles between the attempts to impose new performance goals from the institutional logic spreading in the external environment, an organization’s response to these goals by its adoption or non-adoption of logic-consistent practices, which in turn affect the logic’s diffusion. With this theory we contribute to the institutional logic perspective, which has not examined organizational responses to the emergence of contested performance goals and their interaction with non-contested profitability goals as a distinct organization-level attribute affecting institutionalization. Under conditions of contested institutional change, and contrary to responses to commonly agreed upon goals, performance below aspirations on contested goals triggers resistance to contested practices while performance above aspirations on contested goals triggers adoption of contested practices. We also contribute to the behavioral theory of the firm by paying attention to how the institutional environment may impose new goals on the organizations (Gavetti, Greve, Levinthal, & Ocasio, forthcoming).

Failure to account for the organizations’ responses to contested and non-contested profitability goals could give an incomplete representation of the diffusion process. Models not accounting for such behavior might over-emphasize the organizational imitation of the logic extending practices. In reality, however, organizations are adopting these practices because doing so affects their standing with respect to aspiration levels based on contested and non-contested profitability goals.
Our study context is the spread of corporate governance practices aimed at reforming the boards in large Canadian organizations between 2001 and 2010. During this period, “board reform” was the diffusing institutional logic of governance and was intended to motivate directors and their boards to more fully represent external shareholder interests. To facilitate the diffusion of this logic, institutional entrepreneurs created a publicly available governance ranking which was based on the scores received by firms for their adoption of board reform consistent practices. Firms responded to this ranking by adopting (or resisting adoption) of practices consistent with the board reform logic.

In the subsequent section we provide an overview of the board reform logic in Canada based on our original interviews with key experts—investors, policy-makers, professional directors, senior managers and institutional entrepreneurs. In addition, we reviewed over two thousand articles in the Canadian business press (e.g. National Post, The Globe and Mail) that described this logic as well its opponent—the “management control” logic. This rich data allowed us to understand the emergence of governance score as a distinct performance objective as well as the background for the board reform diffusion processes. After this overview, we develop the performance feedback model of institutional change.

GOVERNANCE SCORING AS A DRIVER OF INSTITUTIONAL CHANGE

Following a spree of media-covered corporate scandals between 1996 and 2002 there was growing consensus in Canada that the prevailing institutional logic of managerial control was flawed (Shipilov, Greve, & Rowley, 2010a). For many preceding decades and across many economic systems, the balance of control was tipped toward managers rather than boards given the common view that governance was not linked to financial performance: Management had specific skills for understanding key issues and achieving performance goals while board members spent much less time committed to the organization. And despite cases of corporate scandals several executives
cautioned against change. As one CEO told us in 2002, “My board is a necessary evil. The public markets require us to have a board but it is not much more than a cost and distraction.” Some directors viewed the board role similarly, “Management has all the information and invests all of themselves into the company. How can a board oversee these people if they are the experts?” However, many institutional investors, regulators and academics held opposing views. In 2002, the CEO of one of the largest institutional investor firms in Canada summarized this discontent telling us that “the pendulum has swung too far and it is time to balance managerial power with better boards.”

The idea of board reform existed in Canada as early as 1994 when the Dey Report, a study commissioned by investors and regulators, recommended the adoption of specific practices to improve governance. However, it was after corporate scandals triggered strong criticisms of the prevailing system in 2002 that three stakeholders mobilized to de-stabilize managerial control as the dominant logic: one of the largest institutional investors, Ontario Teachers’ Pension Plan (OTPP), a newly formed investors’ trade association, the Canadian Coalition for Good Governance (CCGG), and the central business newspaper, The Globe and Mail, commissioned on-going research that scored and compared corporations’ board practices against best practices standards. The Globe and Mail published these governance scores for most large Canadian corporations. OTPP used these scores to convince corporations low on the scale to improve. One executive of OTPP explained the rationale for publicly comparing board practices by telling us “Sunlight is a great disinfectant and so is shame.” Interestingly, CCGG took a different approach by highlighting and publically congratulating corporations with high governance scores hoping positive feedback would influence all firms. In institutional theory language, these three stakeholders were institutional entrepreneurs seeking change and creating a contested and destabilized environment. Consistent with that role, these stakeholders framed discourse and issues (Suddaby & Greenwood, 2005), built allies and
coalitions (Boxenbaum & Battilana, 2005; Greenwood, Suddaby, & Hinings, 2002) and mobilized resources (Rao, 1998).

The governance scoring and ranking process was conducted by the Clarkson Centre for Board Effectiveness, at the University of Toronto, and was financed by the three institutional entrepreneurs identified above. Beginning in 2002 (for the 2001 fiscal year) the Clarkson Centre began examining proxy statements and public documents to annually score the governance practices of each corporation listed on the Toronto Stock Exchange Index. These scores were referred to as Board Shareholder Confidence Index (BSCI). The BSCI scores were sent to each corporation and other relevant stakeholders and published on the Clarkson Centre website. Similarly, each year the Globe and Mail newspaper published “Board Games,” which included all the governance scores as well as extensive commentary. Consequently, board practices and comparisons became public knowledge.

Most institutional investors, regulators, and stock exchanges publically supported the movement toward better governance. However, just as many corporate executives and many board chairs resisted this change. As one CEO told us, “Managers manage and boards drink tea [so] more oversight will not make Canadian companies better [financially]. Giving more power to boards is counterproductive.” Similarly, many board members took issue with outside influence: One chair of a Canadian bank argued that “the right board practices must fit with the particulars of each board and should be chosen by people in the boardroom…not be critics.” And the strongest opposition to board reforms came from closely-held or family controlled firms which despite being publically traded insisted they represented a different organization form requiring different governance principles and practices. Finally, the professional services organizations (i.e., legal, accounting and consulting firms) remained neutral initially, neither promoting nor denouncing board reforms.
Consistent with social movement and institutional theory predictions, the initial broadcast of contested performance goals, such as the BSCI, fueled tension and political contests (e.g., The Clarkson Centre and Globe and Mail were threatened with lawsuits). At that time the Managing Director of CCGG stated that “Many corporations see us as no more than nuisance and maybe worse. They think we will give up soon and things will work back to old ways.” And there was some effort to attack the credibility of the scores and stakeholders promoting them. The Chair-CEO of one corporation sent emails to the faculty member leading the Clarkson Centre insisting, “if this witch hunt is not stopped [the faculty’s] career will be in jeopardy.” In 2004, however, the tone of some interactions had changed. The Clarkson Centre’s Administrative Officers commented that “Instead of getting just threatening calls some directors want the scores sooner and sooner [each year] so they could use them to argue for changes on their boards.”

The board reform logic consisted of three broad groups of practices: structural, evaluation and equity-related. Structural practices were splitting CEO and board chair positions, achieving independence of the board, as well as the independence of the board’s audit and compensation committees. Evaluation practices included development of formal mechanisms for director and board evaluation. Equity related practices included compensating directors with company shares, avoiding option re-pricing, absence of dual share structure, absence of excessive share dilutions and a positive correlation between managers’ compensation and their companies’ stock market performance. Figures 1a and 1b show the rate of these practices adoption between 2001 and 2010 by companies that were members of the Toronto Stock Exchange index.

Institutional investors used the governance ratings to force low performing corporations to adopt new practices. While overall practices adoptions increased significantly, there was anecdotal evidence suggesting corporations below the average governance scores continued to resist board
reform. One board chair expressed a common sentiment of such corporations: “Not only are the practices unrelated to anything we are willing to do but even if we want to make some changes we could never win. We would have to blow up our current board. Impossible.” A CEO of a family-controlled firm had a similar view, “Running a company means producing good returns for shareholders not engaging in a check the box exercise. This system (governance scoring) is out to get us.” Corporations scoring high on the governance ranking system seemed to respond to their relative scores differently. The CCGG Managing Director commented on his meetings with boards do discuss their governance scores that “the best [governance scoring] boards are the most willing to listen to our suggestions and are more likely to adopt new [board] practices.” So, in this contested institutional environment we witnessed different responses to pressures supporting new logics and practices. Below we develop a theoretical account of factors influencing the adoption behaviors in such setting.

**PERFORMANCE FEEDBACK ON CONTESTED AND NON-CONTESTED PROFITABILITY GOALS**

Institutional theory scholars have increasingly recognized heterogeneity in organizations’ reactions to institutionalization process (Thornton & Ocasio, 1999). Greenwood et al. (2011) developed a framework aimed at understanding organizational responses to institutional complexity. One of the key elements in this framework is the recognition that organizations’ responses to contested logics are affected by “filters”, i.e. attributes which frame how organizations experience institutional complexity and how they perceive and construct the repertoire of responses. Greenwood et al. suggest a broad typology of filters comprising a) organization’s position in the field, b) organization’s structure, c) ownership and governance as well as d) organization’s identity.
An organization occupying a central position in a field (defined for example by its age or status) will behave differently as compared to an organization occupying a peripheral position. Those at the periphery might be more likely to deviate from established practices and adopt newly diffusing logics because they are less caught by existing institutionalized expectations, are disadvantaged by existing relationships and have fewer reasons to uphold them (Leblebici, Salancik, Copay, & King, 1991). An organization with thick structural connections to the field-level institutional infrastructure (conferences, club memberships, training programs) is more likely to adopt diffusing practices consistent with these institutions (Kraatz, 1998; Lounsbury, 2001). This will be especially true for organizations connected to powerful social referents with high motivation and ability to enforce their demands (Zald & Lounsbury, 2010). Moreover, an organization’s response to institutional complexity will be affected by the preference of their owners or key resource providers, especially when such providers represent concentrated sources of power and influence (Goodrick & Salancik, 1996). Finally, identity--defined as the claim to socially prescribed categories--will also affect an organization’s responses to contesting institutions because it restricts certain response options while enabling the others (Meyer & Hollerer, 2010). In line with these arguments, Shipilov, Greve and Rowley (2010) show that when contested practices diffuse in multiple waves, the organizations’ adoption of earlier diffusing practices helps them to identify themselves as the adopters of these practices’ underlying logic, making these organizations more likely to adopt practices from the same logic that diffuse later.

Using the behavioral theory of the firm, we augment this list of filters to include an organization’s performance relative to aspiration levels. There is substantial evidence supporting the prediction that performance below aspiration levels induces change (Gavetti et al., forthcoming). For example, organizations have been shown to change their behaviors when their performance fell below aspirations based on accident rates (Baum & Dahlin, 2007), market positions (Park, 2007),
size (Baum, Rowley, Shipilov, & Chuang, 2005; Greve, 2008) and growth (Desai, 2008). In most of these studies performance feedback is relative to an agreed upon goal, such as growth or accident rates. Because there is substantial agreement of the benefits associated with growth and low accident rates, firms track these performance goals and take corrective action when size falls below, or accident rates grow above, aspirations.

These findings should also hold for performance feedback related to institutionalized practices that are non-contested. Although many institutionalized practices are not directly related to increased economic efficiency, stable institutional environments create overwhelming pressure to comply with the dominated logic and adopt endorsed norms and practices (DiMaggio & Powell, 1983; Tolbert & Zucker, 1983). For example, manufacturing lacking ISO certification may help a company to achieve cost reductions but this will be increasingly unaccepted by the institutional field. Hence, a company’s deviations from the commonly accepted institutional norm, for example through its abandonment of ISO processes, might be caused by the extreme performance shortfalls, while companies performing close to or above their aspirations can be expected to continue complying with ISO certification requirements.

We predict different behavioral patterns in contested institutional environments, however. In such environments, entrepreneurs often create new goals to challenge the existing ones, but if the underlying logic is contested, so will be the new goals. That is, the contested logic and its performance metrics lack the legitimacy of taken-for-granted assumptions and thus give organizations more discretion to reject or accept the relevant practices.

Performance relative to that of the peer group on such goals is likely to influence how organizations use this discretion. Performance below the peer group based on the contested goals dampens adoption of contested logics and practices. This will occur for two reasons. First, Cyert and
March (1963) indicate that organizational responses are biased against large changes and distant searches. In the context of contested institutional environments, organizations performing well below peers based on contested goals must implement greater change and more distant searches to achieve aspiration levels on these goals than when performing close to their peers. Given the discretion available in contested environments, organizations performing far below their peers are less likely to adopt contested logics and practices. Indeed, such organizations might block the adoption of practices consistent with contested logic because their efforts are directed toward other kinds of changes that are more similar to those the organization has implemented in the past (Amburgey & Miner, 1992).

Second, responses to institutional complexity are influenced by organizational identities (Greenwood et al., 2011). Organizations seek membership in institutionalized social categories—identities—that present themselves in positive terms—and the organizations respond to external pressures in ways that preserve the features of their identities (Dutton, Roberts, & Bednar, 2010; Sauder & Espeland, 2009). The desire for positive identities affects organizational responses to institutional pressure and practice adoption. For example, a study found that organizational identities in the oil and gas industry influenced whether organizations perceived environmental practices as a threat or an opportunity as well as their responses to these practices (Sharma, 2000). For organizations performing below peer levels on the contested goals, the underlying contested logic represents a threat and negative aspect of identity; and thus, these organizations will more likely reject the logic and the related practices.

While performance below contested aspiration levels reduces the likelihood of practice adoptions due to a bias against substantial search and a threat to the organizations’ identities, organizations performing far above their peers receive positive feedback and are likely to accept
contested institutional logics that affirm this status. Performance above peers affirms a positive identity with respect to the emerging contested logic and an opportunity to enhance that image. Similarly, from a behavioral theory of the firm perspective, these organizations have already implemented practices aligned with the emerging contested logic, so adopting additional practices does not constitute distant search or difficult change. Consequently, organizations performing above peer levels are likely to adopt other practices associated with that identify and institutional logic. These arguments result in the following hypotheses:

**H1:** An organization is less likely to adopt a contested institutional practice if its performance based on the contested goals is below that of its peers.

**H2:** An organization is more likely to adopt a contested institutional practice if its performance based on the contested goals is above that of its peers.

One oft-overlooked aspect of the behavioral theory of the firm is that it postulates that organizations pursue multiple goals either jointly as simultaneous constraints on a decision or sequentially by solving problems associated with one goal before addressing the next (Cyert & March, 1963). There is a distinct hierarchy of goals such that more important goals have primacy over less important ones (March & Simon, 1958). Moreover, organizations routinely switch attention across goals (Cyert & March, 1963). Sequential attention occurs because managers deal more easily with problems in one area of the organization while ignoring goals, preferences, and problems faced in other areas. Sequential attention to goals is also justified by a simple claim of limited attention and capacity for making changes.

Recent evidence for these propositions was found by Greve (2008), who observed that size goals were active when profitability (ROA) goals were met, but not when profitability was below the aspiration level. This is direct evidence of sequential attention to goals, and it also suggests that
return on assets is a high-level goal for managers. Evidence for managerial attention shifts has also been found in investigations of content analysis of letters to shareholders (Cho & Hambrick, 2006) and case analysis (Rerup, 2009).

Indeed, it is reasonable that firms have profitability goals high on their agenda, as they are commonly agreed upon indicators of the organizational efficiency, sustainability and rewards for the owners and managers. The role of profitability goals is well documented in the literature on organizational change in response to performance feedback. This research has shown that return on assets (ROA) relative to aspiration levels affects organizational innovations (Greve, 2003a), investments (Greve, 2003b), strategic positioning (Park, 2007), and acquisitions (Iyer & Miller, 2008). Finding such effects over a wide range of outcomes is testament to the power of profitability as a non-contested goal in shaping managerial action. ROA appears to be a very broad goal and managers must rely on their heuristics on what actions may improve ROA. Because these heuristics vary across managers and depend on opportunities available to organizations they manage, we see a broad range of responses to ROA in different contexts.

While ROA has been a common predictor of change in the research within the behavioral theory of the firm, studies within institutional theory have not demonstrated an effect of ROA on the diffusion of institutional practices. While this may simply be an empirical omission, there is some reason to believe such an investigation would produce weak findings. Institutional theory accounts of organizational life suggest that many decisions are driven by legitimacy concerns rather than efficiency. So, institutional practices often have uncertain and debatable efficiency consequences, especially when such institutions are contested. In general, managers searching for solutions to financial performance problem will avoid reacting by adopting practices with uncertain performance consequences. Instead, they will focus on more established actions, such as the innovations,
investments, strategic positions, or acquisitions, in response to the deviation of their profitability from aspiration levels.

Institutional goals can still be important in their own right when the institution is so well established that goals associated with it become seen as binding on the organization. However, for contested institutional logics this is precisely not the case, suggesting that goals associated with a contested institutional practice will be lower in the goal hierarchy as compared to the profitability goals. While direct link from profitability to contested logic’s adoption might be weak, indirect links may exist because organizations have limited capacity for making many changes simultaneously, so attention to solving profitability problems may reduce attention to other goals (Cyert & March, 1963). These arguments suggest that organizational responses to contested goals through the adoption of contested practices will be deactivated when ROA is below the aspiration level. Furthermore, because the practices are contested and may be seen as undesirable (as well as expensive) by managers in firms that don’t subscribe to these practices’ underlying logic, we can posit that this effect is primarily localized to firms that have contested performance below that of their peers. More formally:

H3: An organization is less likely to adopt a contested institutional practice if its adoption is below that of its peer group and its profitability is below aspirations.

A key assumption in the discussion above was that managers search for solutions according to heuristics on what actions may influence organizational effectiveness. Some firms will adopt contested institutions along with its supporting logic. Because the rhetoric behind institutions for organizations usually involves some claims of performance benefits, the “believer” managers may in fact add the institution and its goals to their heuristic sets of practices that (in their opinion) can improve effectiveness. Even if the institution is in fact unrelated to effectiveness, some firms will by
chance improve effectiveness after adopting, lending support to the belief that the institution is beneficial (Denrell, 2003; Levitt & March, 1988). Moreover, when their profitability is above aspirations, believer managers will switch their attention from the attainment of yet higher levels of profitability to the attainment of new levels in the contested performance. This is a way to commit to the institution that they associate with higher profitability, as well as a result of momentum from having recently adopted other institutionally consistent practices (Amburgey & Miner, 1992). This will mean increased adoptions of contested practices for firms simultaneously outperforming aspiration levels for profitability and their peers for contested goals. Thus, we hypothesize:

**H4: An organization is more likely to adopt a contested institutional practice if its performance on contested goals is above that of its peers and its profitability is above aspirations.**

The hypotheses above assume different aspiration levels for the two types of goals. This is consistent with the behavioral theory of the firm and institutional theory. The behavioral theory of the firm assumes the existence of two distinct mechanisms of aspiration level setting—social aspirations and historic aspirations. Social aspirations are formed when an organization compares its current performance to that of the peer group while historic aspirations are formed when an organization compares its current performance to the performance it was able to achieve in the past. Deviations of performance from both of these aspiration levels have been shown to affect organizational change (Greve, 1998). Moreover, firms might set their aspiration levels differently depending upon their network positions (Shipilov, Li, & Greve, 2010b). Firms positioned within closed network neighborhoods (cliques) where shown to set aspiration levels to the performance of other firms who were the members of the same network neighborhoods, while firms which occupied brokerage positions across neighborhoods set their social aspiration levels based on the performance of other firms in brokerage positions.
When setting aspiration levels, decision makers are likely to pay more attention to factors that represent a source of uncertainty. The pressures towards achieving contested goals primarily come from the firms’ institutional environment, and this pressure is a major source of uncertainty for the decision-makers. Performance scoring devices, such as the Board Shareholder Confidence Index, emphasize social comparisons between peer groups of firms based upon their contested performance, including for example, the singling out the groups of top and worst performers (e.g. Top 10, Bottom 10), whose compliance (or non-compliance) with the diffusing logic is extensively discussed by various stakeholders in the media and public forums. Organizations will not be able to fully control their positions in such rankings with respect to the peer group, because it will depend not only on the organization’s own adoption decisions, but also on the decisions of its peer group members. This is why decision makers will pay a lot of attention (and react) to social aspiration levels, i.e. peer groups, based on contested goal variable. In contrast, historic aspirations based on contested goal variables will play a less important role in the setting of aspiration levels because they are completely under control of the organization’s decision makers, who can increase or decrease their performance simply by adopting or abandoning corresponding practices.

Both social comparison and prior performance based on the non-contested profitability objectives is likely to represent a source of uncertainty for the executives, however. For example, return on assets is shaped not only by the decision-makers’ asset allocation decisions, but also by the market dynamics, moves of competitors as well as complex processes inside the decision-makers’ own organizations. This will be true both for ROA comparisons to the firms’ peer group as well as for the comparisons of a firm’s current ROA to its past ROA. To the extent that firms react to profitability relative to aspiration levels by adopting or resisting adoptions of contesting practices, they will pay attention to both social and historic aspirations on the non-contested profitability goals. Hence, we propose the following:
H5: An organization will pay more attention to its social (relative to historic) aspirations when responding to performance feedback based on a contested goal and will pay equal attention to its historic and social aspirations when responding to non-contested profitability performance feedback.

DATA AND METHODOLOGY

Sample and Data Collection

We obtained access to the Clarkson Centre’s Board Shareholder Confidence Index (BSCI) between 2001 and 2010 as well as the data on the Canadian companies’ adoption of governance practices for the same period. Data from first of these years was used for generating lagged variables, while the rest constituted our sample. The information on the actual practices’ adoption was collected by the Clarkson Center from the companies’ annual proxy statements. We also conducted interviews during the same time period to capture the evolution of key stakeholders’ sentiments about the BSCI.

The sample of companies covered by the BSCI comprised members of the Toronto Stock Exchange (TSX) index. There were on average 200 Canadian companies in this index each year. The composition of the TSX index is different from that of S&P 500 in the US, reflecting the nature of the Canadian economy. Natural resources and financial organizations are more prominent in the Canadian index, while consumer product and IT organizations are more prominent in the US Dow Jones index.

The proxy statements contained information about board membership, board practices, and ownership structure of all companies in our sample, which allowed us to construct annually updated networks of board interlocks. Collecting data on these networks was necessary to rule out the alternative explanations for the mimetic drivers of the practices diffusion. For each TSX member company, we collected data on the identities of its directors, organization characteristics (e.g., size,
industry of operations) and performance from publicly available sources, such as Compustat, Thomson One Banker and Bloomberg Professional Service.

Our qualitative fieldwork suggested that the choice of the timeframe for our analysis, namely from 2001 to 2010, was justified for a number of reasons. First, our key contribution to the literature is to examine how institutional logics and feedback based on different performance goals affect the spread of contested practices. To make this contribution, we start the study when BSCI is created and starts providing companies with information about their performance consistent with the board reform logic that is being contested by the proponents of the management controlled boards logic. At the end of the study period, governance reform was fairly well established. Indeed, key institutional entrepreneurs (Canadian Coalition for Good Governance, Ontario Teachers’ Pension Plan, The Globe and Mail) even considered removing the funding from the Clarkson Center at that time, ironically citing the Center’s success at improving governance in Canada as the justification that the “funding is no longer needed”.

**Dependent Variable**

Our dependent variable is the adoption of companies’ governance practices consistent with the board reform logic. These are the same practices used by the Clarkson Center in the construction of BSCI. As described in the methodology section below, the analysis is set up so that each practice is tracked separately, but the adoptions are pooled in the analysis. The practices can be grouped into three sets. The first set comprised structural practices. Relationships with management increase potential risk that the director will act in the interests of executives before those of the shareholders. BSCI considered the corporate board to independent (i.e. dominated by outsiders without connections to the management) when it contained more than 2/3 of independent directors. To identify dependencies between directors and the management, BSCI applied very stringent measures.
Specifically, based on the Dey Report and CCGG guidelines, BSCI considered board members to be non-independent when: 1) they were employees of the organization either currently or in the last three years; 2) they were executives of organizations affiliated with the focal organization; 3) their organizations provided legal, auditing, or consulting services to the focal organization either currently or within the last 3 years; or 4) they had a kinship relationship to the CEO or board chair of the focal organization. BSCI coded the independence of audit and compensation committees when all members were independent directors. If the CEO and board chair positions are not separated, the perceived potential for the board to operate independently from the influence of management is decreased. BSCI considered the organization to have adopted the practice of board chair and CEO split when the CEO and chair positions were occupied by different individuals, except when these positions were occupied by close relatives.

The second set of practices comprised the existence of performance evaluations. Director evaluation involved peer-to-peer assessment of each director’s performance, usually on an annual basis. Board evaluation was also based on the directors’ assessment and focused on the quality of the board meetings, board information packages, the chair’s leadership, and specific board processes.

The third set comprised company equity-related practices. The director stock ownership practice captured the alignment of the interests between directors and the company, according to the board reform logic. This could be achieved by increasing the value of directors’ compensation with company’s shares as compared to their total annual retainer from the company. BSCI considered the company to have adopted this practice when the value of the average share ownership by the company’s directors was greater than four times their annual retainer. The company was considered not to have dual share structure when greater than 50% of its equity controlled more than 50% of the votes. The rationale behind this practice was that board effectiveness increased when shareholders
could influence its decisions through voting, yet the excessive number of non-voting shares took this influence away from the shareholders.

Share dilution occurs when options granted to executives and directors make up a significant proportion of the outstanding shares, thus diluting returns that would otherwise go to the shareholders. This would have been against the board reform logic. The company was considered not to have share dilution when options to directors and managers did not comprise more than 10% of the company’s outstanding shares and when options to the CEO did not comprise more than 5% of the company’s outstanding shares.

When a company’s share performance has suffered, the cost of exercising directors’ stock options can be greater than the cost of purchasing stock at market value. In this case a company may decide to lower the exercise price in order to align it with the market value of the stock. Such repricing is perceived as relieving directors of their responsibility for the company’s performance. The company was considered not to have option repricing if it did not lower such exercise price within the last three years. Determination of CEO compensation is a responsibility of the board of directors. According to the board reform logic, the compensation of the CEO should be associated with the company’s performance. The company is considered to have an alignment between CEO compensation and share price if a CEO compensation did not increase by more than 25% following a year during which a company’s share price decreased by more than 25%.

Importantly, the actual practices and the specific numeric weights used to determine their absence or presence (e.g. the specific ratio between the value of the share ownership and annual retainer used to determine director stock ownership, percentages of equity/votes used to determine dual share structure, etc) were not developed by the Clarkson Center in isolation, but they were
based on the governance guidelines of the Toronto Stock Exchange and those of the Canadian Coalition for Good Governance.

The BSCI’s definitions of such practices result in a binary variable labeled *Board Reform Practice* coded as 1 if a company had a given practice in a particular year and zero otherwise. Following Shipilov et al (2010) we pooled our data by “stacking” the matrices of single-practice diffusion regressions into one large matrix (Shipan & Volden, 2006; Wei, Lin, & Weissfeld, 1989). If an organization is at risk of adopting a particular practice in a given year, it will generate an observation for this practice. For example, the dependent variable *Board reform practice* in an observation predicting diffusion of board evaluation is set to one if an organization adopted board evaluation in a particular year *t* (and zero otherwise). In the observation predicting diffusion of CEO/board chair position split, *Board reform practice* was set to one if an organization split CEO/board chair position in a given year (and zero otherwise). After the organization has adopted a given practice, it no longer generates an observation for that practice. Hence, our data structure consists of organization-year observations for those organizations that are at risk of adopting new governance practices because they do not yet have them.

**Independent Variables**

Our key performance measures are ROA and BSCI of the companies. The first measure was obtained from Compustat while the second was obtained from the Clarkson Center. BSCI is computed within the range between 0 and 100 points. The Clarkson Center researchers took 100 points as an initial value for each company and then subtracted points if the company did not have the practices consistent with the board reform logic.

We used the following formula to construct historic aspiration levels for both ROA and BSCI:
Historic Aspirations,\(_t\) = Historic Aspirations,\(_{t-1}\)\((1-a)\) + Performance,\(_{t-1}\)\(a\)  \(\quad (1)\)

where Performance,\(_{t-1}\) is either ROA or BSCI at \(t-1\), and \(a\) is a number between 0 and 1 that represents the weight given to the immediate prior performance as compared to the weight given to more distant performances. If the historical aspiration level is weighted heavily toward recent performance, then it will adjust quickly to short-term performance variations, whereas if it is more heavily weighted toward past performance, then short-term performance variations will have little impact.

We computed social aspirations for each firm as the average ROA and BSCI for all the firms in the TSX index, excluding the ROA and BSCI of the firm for which the social aspirations were computed. Because firms are more likely to react to performance of similar others, we weighted each firm’s performance by \(1+w\) where \(w\) was set to zero if the two firms were in the same industry and to 1 if two firms were in different industries (Greve, 2008).

As firms may use historic and social aspirations simultaneously (Cyert & March, 1963), we aggregated them based on the following formula

\[
AL_t = G \times Social\ Aspirations,\_t + (1-G) \times Historic\ Aspirations,\_t
\]

where \(G\) was the weight given to social aspirations, which varied between 0 and 1. When \(G=0\), firms set their aspirations based solely on historic aspirations; when \(G=1\) then firms set their aspirations based solely on social aspirations and when \(G=0.5\) then firms set their aspirations equally based on social and historic aspirations.

To determine how firms react when their performance is above or below aspiration levels, we computed separate \(AL\) based on ROA and BSCI and then subtracted these aspiration levels from the actual ROA and BSCI. We implemented a spline function to enable comparison of the slopes above and below the aspiration-level point (Greene, 2000). Toward that end, we split each
relative performance variable for both performance metrics into two variables. ROA below AL equals zero for observations where relative performance based on ROA is greater than zero and equals the relative performance otherwise. ROA above AL equals zero for observations where relative performance based on ROA is less than zero and equals the relative performance otherwise. Symmetrically, BSCI below AL equals zero for observations where relative performance based on BSCI is greater than zero and equals the relative performance otherwise. BSCI above AL equals zero for observations where relative performance based on BSCI is less than zero and equals the relative performance otherwise.

**Control Variables**

Decisions of organizations to adopt contested practices may be affected by a range of other factors. We computed the number of practices from the board reform logic that an organization has already adopted in a given year. This variable was labeled Own practice. Moreover, an organization might adopt practices because it shares directors with prior adopters. To capture diffusion of governance practices through the network of board interlocks, we constructed affiliation matrices in which a cell $X_{ij}$ represented the number of common directors between organization $i$ and organization $j$. When $X_{ij}$ was set to zero, there were no common directors between the two organizations, a cell’s value of 1 represented a single common director, a value of 2 represented two common directors between the companies, and so on. Such matrices were constructed for each year in our observation window. Then, we computed Interlock practice as a count of the number of practices consistent with the board reform logic which were adopted by the firm’s interlock partners.

Network centrality is often associated with early adoption of innovations as well as with the other important performance outcomes (Shipilov & Li, 2008). To capture an organization’s position in the network of interlocking relationships, we used a measure of eigenvector centrality (Bonacich,
Given an adjacency matrix, A, organization i's Centrality was computed as $\alpha \Sigma A_{ij} c_j$, where $\alpha$ is the reciprocal of the largest eigenvalue of matrix A. To normalize the measure, we divided it by the maximum centrality in each annual network (Borgatti, Everett, & Freeman, 1999). This transformation facilitated comparison among centrality scores across networks in different years and was computed for each organization annually.

To control for the stock market performance of companies, we computed Market/book value as a separate control variable. We used this measure, as opposed to possible alternatives, because market based performance measures are often the most salient to the shareholders. Canadian companies with shares listed in the U.S. may be more receptive to new governance practices because the U.S. had tougher rules on governance, especially after the adoption of the Sarbanes-Oxley act. To control for U.S. exposure, we enter the indicator variable, US stock crosslisting, set to one for organizations cross-listed in NYSE or NASDAQ.

When an organization has an extremely low BSCI score, it is likely to attract a lot of attention from the external stakeholders, especially the proponents of the board reform logic. To capture this dynamics, we computed an indicator variable Extremely low BSCI set to 1 if a company had a BSCI score that was less or equal to 25. This would put the company at the very bottom of BSCI tables.

Governance in banks and other financial institutions is likely to attract attention because of the importance of the financial sector to the health of the economy in general. Hence, we computed an indicator variable Financial sector set to 1 if the company operated in that sector, with zero otherwise. Directors’ oversight of large organizations also attracts attention from external stakeholders because of the disproportionate effects that governance failures in large organization could have. Therefore, our models include the natural log of net sales ($\ln \text{net sales}$) for each organization in the sample. Our interviews and content analysis of the business press suggested that ownership by members of the
CCGG influence board decisions to adopt the second wave practices. Therefore, we created variable *CCGG Ownership*, set to 1 is the CCGG members held ownership stakes in the organization (zero otherwise).

We also entered an indicator variable for the focal practice of each observation in order to take into account differences in the base-rate of diffusion (i.e., some practices spread more rapidly because they are easier to adopt or considered to have greater benefits). For identification, we omit one practice from the set of indicator variables. Finally, all of our models also include year fixed effects to control for the effect of time on the diffusion rates. Our independent variables are lagged by a year.

**Hypothesis Testing**

Hypothesis 1 suggests that firms will decrease their adoption of contested practices when their BSCI will fall below aspiration levels. Because \( BSCI_{below\ AL} \) takes negative values only, a positive coefficient of \( BSCI_{below\ AL} \) will provide support for this hypothesis. Hypothesis 2 suggests that firms will increase their adoption of governance practices when their BSCI is above aspiration levels. Because \( BSCI_{above\ AL} \) takes only positive values, a positive coefficient of \( BSCI_{above\ AL} \) will provide support for this hypothesis.

In Hypothesis 3 we argued that underperformance of profitability aspirations and contested performance below the peer group makes firms less likely to adopt contested practices. To test this hypothesis we interacted \( BSCI_{below\ AL} \) with \( ROA_{below\ AL} \). A negative coefficient will support this hypothesis. In Hypothesis 4 we argued that performance above profitability aspirations and above peer group based on contested performance makes firms more likely to adopt contested practices. To test this hypothesis we interacted \( BSCI_{above\ AL} \) with \( ROA_{above\ AL} \). A positive coefficient on this variable will support this hypothesis.
Hypothesis 5 argued for heterogeneity in the weights that firms assign to historic and social aspirations depending upon specific performance objective that they are reacting to. Hypotheses about different specifications of an aspiration level are tested by comparing the fit of a model where social aspirations and historic aspirations have an equal weight in setting the overall aspiration level to a model where aspiration levels are modified based on a theoretical criterion. This approach is similar to the one adopted in the learning literature to identify the depreciation factors for past experience (Baum & Ingram, 1998) and it has been implemented in the prior studies examining heterogeneity in aspiration level settings (Greve, 2002; Shipilov et al., 2010b). Comparisons of model fit of non-nested models are usually based on the Bayesian information criterion (BIC) (Raftery, 1996).

Estimation Technique

We used the xtlogit command in STATA both population average and random effects estimator along with Huber/White robust standard errors clustered on organizations (Shipan & Volden, 2006). The logit is appropriate because we have a binary dependent variable. We predict adoption of governance practices in time t+1 as a function of the firms' BSCI score (as well as other independent and control variables) in time t. Our usable data has a maximum of 8 time periods per organization, which means that the fixed effects estimator of the logit model is biased (Lancaster, 2000). Simulations show that the population average estimator outperforms the fixed effects estimator on short time panels in logit models (Greene, 2004). The disadvantage of using the population average estimator is that, unlike a random effects estimator, it doesn’t provide a likelihood ratio that is needed to compute BIC statistic to test hypothesis 5. Hence, we first build our regression models using a population average estimator, then replicate our results with the

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1 Data between 2001 and 2010 comprises ten time periods. We lose one time period because of lagging independent variables to avoid simultaneity bias and another time period for initializing historic aspirations (i.e. firms' historic aspirations for 2001 are undefined).
random effects estimator. Then we conduct the search for the best fitting model by varying the social aspiration weight and capturing the model fit with BIC for the random effects estimator. We also compute the Wald Chi-square for the population average estimator in each model. The added advantage of using population average and random effects estimators, as compared to the fixed effects one, is that they do not force us to drop observations for firms which did not adopt any practice throughout the period of observation.

**Analysis and Results**

Table 1 contains descriptive statistics and correlations between variables. All the correlations are within acceptable range, indicating an absence of multicollinearity. Since our regression models contain interactions, we computed VIF for each model, but all the maximum VIF statistics per model were well below the cutoff level of 10.

--- Insert Table 1 about here---

We build hierarchically nested models to test our Hypotheses 1-4 in Table 2. We use the population average estimator in Models 1-4. Model 1 is a baseline, Model 2 enters ROA above and below aspiration levels, Model 3 enters BSCI above and below aspiration levels while Model 4 enters interactions between ROA and BSCI above and below aspirations. Model 5 replicates Model 4, but uses a random effects estimator. In all of these models, based on formula (2), we assumed that firms react solely to social aspirations based on BSCI when adopting/resisting governance practices ($G_{BSCI}=1$) and that firms react equally to social and historic aspirations based on ROA ($G_{ROA}=0.5$).

The results are qualitatively similar across the models (hypothesis tests show higher significance in Model 3), so we interpret the full Model 4 and its random-effects version Model 5. Hypotheses 1-4 are supported in both Model 4 and 5. Namely, firms are less likely to adopt
governance practices when their performance on the governance score is below aspirations (H1), but they are more likely to adopt practices when their governance score is above aspirations (H2). When both ROA and BSCI are below aspirations, firms are less likely to adopt practices (H3), but when ROA and BSCI are above aspirations, they are more likely to adopt practices (H4). The results thus give full support to our predictions.

--- Insert Table 2 about here---

To get a more nuanced understanding of how interactions between aspiration levels based on both goals affect predicted probability of adoption, we constructed Figure 2. It shows that performing above aspirations based on ROA significantly increases the propensity of firms above peer adoption levels of BSCI to adopt governance practices. It also shows that performing below aspirations based on ROA significantly decreases the propensity of firms below peer adoption levels of BSCI to adopt governance practices.

--- Insert Figure 2 about here---

Table 3 shows tests for Hypothesis 5. In this table we vary the weight of social/historical aspirations (G) for both BSCI and ROA and compare fit to a model where $G_{ROA}$ and $G_{BSCI}$ are equal to 0.5. The upper value in each cell is the Wald statistic for Model 4 (computed using a population average estimator) and the lower value in each cell reflects they BIC for Model 5 (computed using a random effects estimator). As G varies from 0 to 1 in increments of 0.1, this analysis amounts to running 121 regressions for each model. These regressions help us identify which weights of the social and historic aspiration levels produce the best fitting model.

--- Insert Table 3 about here---
Wald statistics approximately follow a chi-square distribution with differences greater than 3.84 providing support for the best fitting model at p<0.05 level (higher chi-square indicating a better fit). However, because the test is non-nested for these models, the difference in Wald statistics can only be seen as indicative. Between-model BIC differences greater than 6 indicate strong support for the model with a smaller BIC, where “strong support” is seen as tantamount to a 0.05 significance level in non-Bayesian inference (Raftery, 1996). The reference model where \( G_{ROA} = G_{BSCI} = 0.5 \) has Wald statistic equal to 229 and BIC equal to 3384. Our chosen model with \( G_{ROA} = 0.5 \) and \( G_{BSCI} = 1.0 \) has a significantly better fit (at least p<0.05) its BIC equals 3369; its Wald statistic of 235 suggests this conclusion as well. Models with \( G_{ROA} \) within the range of 0.3 - 0.5 and \( G_{BSCI} \) within the range of 0.9 - 1 provide slightly better fit still, although they are not significantly better than the model with \( G_{ROA} = 0.5 \) and \( G_{BSCI} = 1.0 \). Hence, we find support for Hypothesis 5 stating that firms use only social aspirations based on governance score and an equal mix of social and historic aspirations based on the financial performance when deciding whether to adopt or resist adoption of the governance practices.

Some results of control variables are interesting to note. For instance, as expected, firms whose interlock partners adopted board reform practices were also more likely to adopt board reform (the coefficient for Interlock practice is positive and significant). This is consistent with prior research on mimetic diffusion of practices through networks (Davis & Greve, 1997). Own practice variable is negative and significant. This effect captures the baseline diffusion mechanism—after the firms adopted some governance practices from the list included in the BSCI, there are fewer other practices in the list for them to adopt. Finally, Centrality is negative and significant. This is because high centrality in the board interlock network captures the core position of an organization in the institutional field and this position shields it from the institutional pressure, making it less likely to
adopt newly diffusing contested logic. In contrast, it is peripheral organizations that drive this logic’s adoption because they are not as wedded to the status quo (Leblebici et al., 1991).

**DISCUSSION AND CONCLUSIONS**

We have sought to inform the new literature on institutional contestation (Greenwood et al., 2011) by drawing on insights from the institutional perspective and the behavioral view of the firm. A key element of our theory is the idea that entrepreneurs seek to impose goals on organizations in order to gain compliance with the institution that the entrepreneurs are trying to diffuse. Such attempts may be seen when institutions are established as well as when they are contested, but they have greater effects in periods of contestation because they help identify targets of praise or critique that then affect companies’ adoption of contested practices.

Firms may choose to comply – or not – with the contested goals for a variety of reasons (Greenwood et al., 2011). In this paper we bring in the behavioral theory of the firm to argue that organizational decision makers use these goals and corresponding aspiration levels as filters that affect their responses to contested institutions. Moreover, decision makers shift attention among goals and will deemphasize contested institutional goals when they are also below the aspiration level on profitability goals (Cyert & March, 1963). Conversely, in firms with high financial performance and high levels of contested goals’ adoption, managers may come to see causal links between the two and hence increase their levels of adoption yet higher. In line with our reasoning, we found that the adoption rates of practices consistent with a contested institutional logic of board reform were positively related to firms’ corporate governance performance relative to peers. In addition, we found that low profitability reduced adoption rates for firms with adoption levels below peers, while high profitability increased adoption rates for firms with adoption levels above that of peers. In short, higher profitability gave organizations the bandwidth to pursue non-profitability goals related
to board reform, but this ability primarily produced results in the organizations that indicated (through their already high adoption rate) that they had adopted board reform as a logic. Moreover, organizations appeared to set their aspiration levels differently for contested corporate governance goals and uncontested profitability goals. While firms used both performance of their peers and their own past performance as a reference when reacting to profitability goals, they used only the performance of their peers as a reference when reacting to the contested board reform goals.

The findings are an important extension of work on the diffusion of institutions. It has been known and often shown that organizations mimetically adopt new practices of uncertain value, thus spreading institutions (Davis & Greve, 1997; DiMaggio & Powell, 1983; Galaskiewicz & Burt, 1991). We show a more strategic form of diffusion that has not been similarly documented: the imposition of goals by institutional entrepreneurs leads to performance feedback whereby organizations adopt or resist a broad range of practices depending upon the organizations’ performance with respect to these goals, notwithstanding the actions of other firms such as those with interlock ties. While this is a new finding, it is consistent with the more political view of institutions that has been promoted by the theory of institutional logics, and particularly its recent turn towards logics that do not rapidly replace each other, but rather remain in contestation over a period of time (Greenwood et al., 2011). Hence, not only firms’ network positions, but also their own characteristics matter for important organization-level outcomes (Shipilov, 2009), such as the adoption of diffusing practices.

The findings are also an important contribution to the behavioral theory of the firm, as well as to its integration with institutional theory. The integration is clear through the demonstration that performance relative to traditional performance goals was a modifier of the effect of contested institutional goals. Hence, sequential attention to goals among firms can slow down or speed up the spread of institutions, irrespective of the processes that take place at the level of the institutional
field. This finding of sequential attention is also important for the behavioral theory of the firm, which has produced only few empirical demonstrations of this phenomenon despite the clear theoretical rationale behind it.

More broadly, the move in organizational research from institutions leading to isomorphism (DiMaggio & Powell, 1983), via institutions being replaced by new institutions (Thornton & Ocasio, 1999), to institutions remaining in contention (Hoffman, 1999) might be a result of researchers gaining the necessarily conceptual tools for seeing institutional environments as complex and contentious in which organizations are choosing how much to adapt to each of the potentially conflicting logics (Greenwood et al., 2011). When organizational decision making is involved, the behavioral theory of the firm can supply concepts and processes with strong explanatory power – in this case, adaptation as a result of performance relative to goals, and sequential attention to goals. Clearly this is not all, as the more political view of institutional adoption seen in research on institutional logics is a good fit for the concepts of organizational politics and dominant coalition seen in the behavioral theory of the firm. Clear opportunities for extension would be to identify the “believer” firms with intraorganizational characteristics that empower internal proponents of a governance reform and to examine how these firms differ in their adoption decisions as compared to firms that don’t have these characteristics.

Many other extensions are also possible. While our investigation, as many others, focused on contention between two different institutional logics, there is an opportunity for examining how organizations react to multiple contending logics. There are also remaining questions on how the institutional goal becomes seen as important through the efforts of institutional entrepreneurs. What are the characteristics of entrepreneurs and those of their logic that make the goals that they pioneer affect the aspiration levels of companies? This is a step in the theory and empirical research that may
benefit from cross-fertilization with social movements research, as the institutional entrepreneurs may well use similar tactics and benefit from similar situations as grass-roots social movements (Rao, 1998). In all, there are rich opportunities for extending work on logics in contentions and organizational decisions on how to respond to institutionalization.

Our study has some limitations stemming primarily from the institutional context in which it took place. It is a classical dilemma of institutional research that sensitivity to the specific institutional context is needed to inform the investigation, but this also suggests limitations in generalizibility. Thus we have clear evidence on the effects of governance performance associated with a contested institutional logic of board reform, but we do not know the extent to which institutional entrepreneurs are able to create such effects in the other contexts.

In conclusion, we hope to have advanced research on institutional change by drawing attention to performance goals as a distinct filter affecting organizations’ responses to contested institutions. We also hope to have contributed to the behavioral theory of the firm by tracking the emergence of contested goals and the organizational reactions to these goals. Our results emphasize that institutions spread not purely through the inertial or mimetic processes, as has been portrayed to date, but also through the feedback cycle between external imposition of performance goals and the organizational response to these goals that affects the further spread of these goals. Such findings are important for our understanding of institutional change because they suggest a more strategic behavior of organizations with respect to institutionalization than has been recognized so far. We hope that the ideas and results in this paper become sound building blocks in our understanding of the mechanisms underlying the diffusion of institutions as well as the relative importance of different performance goals that shape the institutionalization processes.
REFERENCES


Table 1: Descriptive statistics

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<th>10</th>
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N=3,506
Table 2: Logit models of governance practices adoption

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<td>-0.651*</td>
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<td>0.005</td>
<td>0.005</td>
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<tr>
<td>Interlock practice</td>
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<td>0.017</td>
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<td>(0.017)</td>
<td>(0.017)</td>
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<tr>
<td>ROA above AL</td>
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<td>0.012+</td>
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<td>0.015*</td>
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<tr>
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<td>(0.006)</td>
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<tr>
<td>BSCI above AL</td>
<td>0.030**</td>
<td>0.022*</td>
<td>0.022*</td>
<td>0.025*</td>
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<td>(0.011)</td>
<td>(0.012)</td>
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<tr>
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<td>-0.005*</td>
<td>-0.005*</td>
<td>-0.005*</td>
<td>-0.005*</td>
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<tr>
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<td>(0.002)</td>
<td>(0.002)</td>
<td>(0.003)</td>
<td>(0.003)</td>
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<tr>
<td>BSCI x ROA above AL</td>
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<td>0.005+</td>
<td>0.005+</td>
<td>0.005+</td>
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<td>(0.002)</td>
<td>(0.003)</td>
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<td>Constant</td>
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+ p<0.1; * p<0.05; ** p<0.01; *** p<0.001; all models contain fixed effects of individual years and individual practices
Table 3: Search for the weights on social/historic aspirations

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<th>Weight for BSCI social aspirations (G_{BSCI})</th>
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First value in each cell represents Wald statistic from Model 4 while the second value represents BIC from Model 5.
Figure 2: Predicted probability of adoption

Governance score relative to reference group

- No interactions
- Low ROA
- High ROA