Research Statement of Timothy G. Pollock

My research follows three broad, but interrelated streams: corporate governance, the social construction of firm value in the initial public offerings (IPO) market, and the role of managerial perceptions and cognition in strategic choice. Within these streams I pursue common theoretical themes that draw on literatures in a variety of disciplines and are applied to understanding how individual and institutional actors acquire, interpret and act on information in uncertain and ambiguous circumstances to assign value. In all of my research I have tried to focus on how the social and political contexts that individual and organizational actors face influence they way that they make sense of the world, and in so doing, shape the value placed on the organizational outcomes that are the focus of the actor's attention. My goal is to gain a greater understanding of the complex mix of forces that shape the way rationalized organizational outcomes—whether it be the value placed upon a company or the compensation paid to a CEO—are determined, presented, and justified to the public. In doing so, I have drawn on a variety of theories from organizations research, economic sociology, strategy, finance, social psychology, communications, and media studies. I believe that this theoretical pluralism is a strength of my research because it allows me to explore the issues I'm interested in from a wide variety of perspectives, and to develop more integrated theoretical explanations of the processes and phenomena that I observe. One hallmark of my research is that I integrate micro-level theories of power and social cognition with macro-level theories of strategy, networks, institutions and markets to develop more nuanced and comprehensive theoretical models.

An additional strength of my research is the variety and mix of different research methods and analytical techniques that I have brought to bear across my various studies. In particular, I have effectively mixed the content analysis of texts and open-ended survey questions with data drawn from archival sources to conduct quantitative analyses. I have used this approach to conduct more detailed research and theory building regarding the roots and role of legitimacy in market valuation (9, 22), corporate governance decisions (2, 5), and to explore the role of management cognition in strategic choice (14, 16). I have also made frequent use of event count (2, 5, 13, 20, 22) and event history (7, 11) modeling techniques, which typically receive more use in population ecology and institutional studies, to explore issues in corporate governance and the social construction of markets. Finally, I have integrated network analysis with partial least squares structural equation modeling techniques to simultaneously test multiple theories of job satisfaction (6).

Below I discuss my past, ongoing and future research in each of my three major areas of interest, and demonstrate the linkages that tie these research streams together.

Corporate Governance

The dominant themes in my research interests have their antecedents in my work and personal experiences prior to entering academia. In my work at both Coopers & Lybrand and the Longmont Group I analyzed and designed corporate compensation and benefit plans. As a consultant, I spent a great deal of time collecting and analyzing quantitative compensation data for our clients. Over time, however, I began to realize that it was often social and political considerations, many of which were indirectly related to the information I presented, that had the greatest impact on our engagements' outcomes. When I began my doctoral studies, these experiences initially led me to study the ways in which social and political factors influenced executive compensation and corporate governance. This interest led to my involvement in a string of research studies with Joe Porac and Jim Wade (1, 2, 5, 17, 21) which is ongoing. This stream of research is important because it highlights the limitations of approaching corporate governance issues from a strictly agency theoretic perspective (the dominant theoretical paradigm considered in this literature) and demonstrates the richness and complexity of the sociopolitical environments in which boards and TMTS make governance decisions.

Given that CEO compensation seems to be influenced by an extensive set of political factors unrelated to performance, one question I have raised is how boards of directors justify their politically motivated compensation practices to shareholders. This issue had traditionally been difficult to study, given that board compensation policies were hidden from the public. Reporting rule changes instituted by the SEC in the early nineties, however, forced companies to publicly justify their compensation policies and to compare their performance against a set of "comparable" firms. These rule changes provided a unique opportunity to get inside the black box of CEO compensation, and I have taken advantage of this in my research. In one project, I investigated how compensation committees justify and legitimate executive compensation policies in annual proxy statements (2). I found that these justifications are affected by a complex web of interdependencies between shareholders, management, and the board of directors. This paper is also notable because it used a methodology that was relatively new at the time, computerized content analysis, and was published in a special issue on this topic. In another paper (5), I investigated the process by which boards of directors pick comparable firms for the purpose of evaluating managerial performance. I found that political processes stemming from board/shareholder relationships have a strong influence on the peer selection process, and the degree to which compensation committee reports discuss the firms' competitors. In a related vein, I also have a working paper (21) that looks at how different sociopolitical and performance characteristics attract or discourage the filing of resolutions by shareholder activists. Overall, these studies confirm that corporate communications are important because they provide a key mechanism through which boards build legitimacy for their policies and balance informational concerns against political pressures. My results also suggest that, ironically, while the SEC rule changes were intended to make firms more accountable to shareholders, they instead appear to have created yet another venue for political processes to play out.

In a more recent study (7), I look at how the power of the CEO and impression management concerns influenced the board's decision to reprice a CEO's stock options. I took advantage of a unique fluctuation in the stock market to conduct a "naturally occurring experiment" and develop a theoretical model that explored how the power of the CEO, stockholders and the board affected the board's repricing decision. I found that factors which increase the structural power of the CEO also increase the probability that the CEO's options would be repriced. However, I also found that direct CEO stock ownership decreased the likelihood their options were repriced, even though it increased the CEO's power. Further, I found that factors which increased the decision's visibility, and that increased CEO power by decreasing the board's power (thereby making it appear weak), decreased the likelihood of repricing. These findings are important because they highlight the importance of impression management concerns in executive compensation decisions. They also demonstrate the limitations of using stock options as the primary mechanism for aligning management and shareholder interests—the purpose for which they are expressly intended. Illustrating the importance of these findings to management practice, both the *New York Times* and *Businessweek* reported on this study.

I have also developed a set of two empirical and two theoretical papers that explore the antecedents and consequences of reputation and celebrity for CEOs and their firms (2, 12, 17, 18). The empirical papers explore the impact of CEO reputation on executive compensation and firm performance (1, 17). These studies demonstrate how CEOs can capture additional value from a good reputation in the form of higher levels of base and incentive compensation, even though firm performance is no better, and in fact, is often worse, when a high reputation CEO is at the helm. An interesting aspect of these studies is that the results indicate while highly regarded CEOs make more money when their company performance is good, they make less money than other, less highly regarded CEOs, when their company's performance is poor. These findings suggest that CEO hubris may induce the CEO to allow his or her compensation to be more closely tied to firm performance.

Strategic Choice

I expand on the themes I have begun to develop in my CEO reputation research in the two theoretical papers on CEO and firm celebrity (12, 18). These papers explore how celebrity—a theoretical construct that is related to, but distinct from reputation—at both the CEO and firm levels can affect firm performance. Both papers highlight the critical role that media attributions play in the social construction of celebrity. However, the firm celebrity paper highlights celebrity's value as an intangible asset that can create resource acquisition opportunities for a firm. The CEO celebrity paper, on the other hand, develops a theoretical model that illustrates how CEO celebrity can lead to overconfidence, strategic inertia, and ultimately a decline in long-term firm performance. To date there has been no discussion or theoretical development of the processes through which CEO and firm celebrity are created, or their implications for firm performance. Thus, both papers offer novel and potentially important contributions to the literature on strategic choice.

The influence of socio-cognitive factors on strategic choice is a theme I continue in three other studies (8, 14, 16). In the first study (8), I develop a model of "reasoned risk taking," and demonstrate how the effectiveness of two governance mechanisms for increasing managerial risk taking in entrepreneurial firms (TMT ownership and VC involvement) are moderated by the experience of the VC, TMT and board members.

Specifically, I demonstrate that if the VC, outside board members, and/or the TMT have prior international experience, these governance mechanisms are more likely to lead the company to pursue international expansion strategies in the year of, and the year following the company's IPO. These findings are important because they highlight that determining the "riskiness" of firm behaviors is inherently subjective, and why traditional prescriptions suggested by agency theory may have different levels of effectiveness for different firms. In the latter two studies I explore how entrepreneurial managers develop their growth logics (14), and how these growth logics interact with financial and human resource slack (16) to influence firms' short-term growth rates. These studies are important because they tackle the little-explored "cognitive proposition" that underlies the resource based view of the firm, and demonstrate how managers' perceptions of a firm's feasible avenues for growth interact with the actual resources available to influence growth rates. Another notable aspect of these studies is that they make use of a unique database developed by the Ewing Marion Kauffman Foundation on high growth firms. This database includes open-ended narrative responses to questions regarding a company's history, products, founder, past accomplishments, and future growth plans, as well as a variety of financial measures. I played a significant role in helping the Kauffman foundation construct this database, overseeing the digitization and cleaning of over 1,000 narrative statements while working as a research assistant for Joe Porac.

Although less closely related to my other research on strategic choice, the papers I have published with Howard Thomas (3, 4) trace the broad history of the strategy literature on competition. These conceptual papers demonstrate how changes in the level of analysis considered have influenced the evolution of theoretical notions about how executives choose and pursue particular strategies. Early, economic perspectives developed at the industry level of analysis dealt largely with how environmental forces and conditions shaped and constrained perceptions of the "proper" strategies to pursue in a given industry. More recent theorizing conducted at the firm-level of analysis demonstrates how managers' cognitive constraints, the resources available, and firms' distinctive capabilities drive strategic choices.

Finally, I am also in the planning stages of a new set of studies with Ted Baker at the University of Connecticut that will explore how a venture capitalist's propensity to replace founder CEOs, and the timing of these succession events, affects the likelihood the new firm will survive and thrive. Violina Rindova and I have also collected extensive media coverage data on a set of Internet IPO firms that we will be using to empirically test and extend some of the arguments we develop regarding the nature and impact of firm celebrity.

<u>The Social Construction of Markets</u>

My third major stream of research emerges from my dissertation, where I studied how the power, social resources, and dependencies of key actors in the initial public offerings (IPO) market influence IPO outcomes. My dissertation won two of the top dissertation awards in my field, the *1997 INFORMS/Organization Science Dissertation Proposal Competition*, and the *2000 Lou Pondy Award*, granted by the Organization and

Management Theory Division of the Academy of Management for the best paper based on dissertation research.

Although there is a long tradition of IPO research in Finance, Finance scholars have focused primarily on rational actor-based theories in attempting to explain anomalous outcomes, such as underpricing (the run-up in stock price that generally occurs on the day a stock begins trading on the open market), that are inconsistent with efficient market theories of market behavior. While they have offered a plethora of theories to explain these outcomes, none to date has adequately explained the IPO market phenomena. One significant omission in this literature I identified was a general lack of consideration for the complex and interesting social milieu in which an IPO takes place. In a conceptual paper (10) I develop a theoretical model that explicates how the investment bank leading an IPO underwriting effort acts as a network architect, bringing together other underwriters and investors to create a deal network, the structure of which can have significant consequences for pricing and allocating IPO shares. Specifically, I consider how the lead underwriter's social resources (its reputation in the market and the network of relationships it possesses) and dependence on the IPO market for revenues can shape the decisions it makes with regards to the size of the deal network it constructs, the reputational status and quality of the underwriters and institutional investors it includes in the network, and the degree to which it includes investors with whom it has strong or embedded ties. I further discuss how the impact of the underwriter's social resources and market dependence are moderated by the broader market conditions in which the transaction takes place, as well as the quality of the firm being taken public. The theoretical model I develop is important because it illustrates how environmental, social-structural and political forces can all come into play in shaping the outcome of financial transactions.

I extend this basic theoretical model in an empirical study (19) that explores how, and under what conditions, strong ties or weak ties serve as more valuable sources of social capital, by examining how the degree of embeddedness between the lead underwriter and institutional investors in a deal network affects underpricing, and how this main effect is moderated by the reputation of the underwriter and the market conditions at the time of the offering. I find that more embedded ties lead to less underpricing (and presumably more cash for the IPO firm), but that this effect is reduced if the underwriter also has a high reputation. Further, I find that this main effect holds when market conditions are poor, but that when market conditions are good, an IPO with a highly embedded deal network experiences greater levels of underpricing than IPOs with a lower proportion of embedded ties in the deal network.

In a second empirical study (11), I explore the extent to which various sociopolitical factors (founder-CEO presence, CEO ownership, venture capitalist ownership concentration, average TMT tenure and deal network embeddedness) can serve as "transformational shields" that decrease the probability that an IPO firm will fail as it attempts to make the transition from a privately-held to publicly traded firm in the years following its IPO. I find that higher levels of internal (average TMT tenure) and external (deal network embeddedness) social capital decrease the failure rate of IPO firms. I also find that the presence of founder-CEOs who retain higher levels of stock ownership reduce the likelihood of failure. In addition, I find that concentrated levels of retained ownership by venture capitalists increases the likelihood of firm failure unless the CEO also retained substantial ownership. These findings are significant because they demonstrate how a firm's social capital and sociopolitical characteristics can protect it from the threats associated with resetting the "liability of newness clock" when undergoing major changes. Limited empirical research has explored the factors influencing an organization's ability to survive transformational events, and no research to date has considered the role that sociopolitical factors play in this process.

In addition to my focus on the influence of the firm and the underwriter in the IPO process, I have also conducted research on the role that another important institutional intermediary—the media—plays in the social construction of IPO firm value (9, 22). In the first study (9), I draw on socio-cognitive theories of noticing and framing, as well as mass media theory on agenda setting, to develop theory on the cognitive bases of legitimacy. I explore how the volume and positive/negative tenor of a firm's media coverage prior to its IPO affects underpricing and turnover (the percentage of shares available that are traded) on the day it goes public. I show that the volume of media coverage has a negative, diminishing relationship with underpricing and a positive diminishing relationship with turnover. I also find that tenor has a positive, non-linear relationship with underpricing and a negative, nonlinear relationship with turnover. These findings are important because they help resolve a debate in the literature regarding whether the media "affects" or "reflects" a firm's legitimacy. The theory and results of this study illustrate how the media serve as a "propagator" of legitimacy in markets that both is attracted by and enhances a firm's legitimacy. This study makes another important contribution by demonstrating that publicly available information, which presumably has already been factored into IPO pricing, can still have affect market behaviors. In a current working paper (22) I extend this study to the post-IPO period and look at how media coverage characteristics following the IPO are influenced by, and influence, market performance (22). This study makes a theoretical contribution by exploring the role the media play in information cascades in markets. I extend my research on the role of legitimacy in markets in a separate set of studies with Ranjay Gulati (13, 20) by exploring how the market's initial response to a company (i.e., underpricing) can legitimate a firm and enhance its ability to access resources following the offering. There is little research that treats underpricing as an independent variable, so both studies are also important in this regard. I am also planning an additional study in this area focusing on how the legitimacy gained through a successful IPO affects the rate at which a firm forms strategic alliances following the offering.

At this point I would also like to say a word or two about my social information processing (SIP) paper (6). This paper differs from my other research in that it deals with "micro" theory and measures such as job characteristics and job satisfaction. This study evolved out of a paper I wrote in a doctoral seminar, and I pursued it because it offered me the opportunity to conduct network analysis using a dataset my coauthors were collecting. This paper offers a valuable contribution to the literatures from which it is drawn because it corrects many of the methodological weaknesses plaguing prior research on SIP, and also addresses criticisms leveled against needs-satisfactions models of job design. This study is also novel in that it integrates the SIP and job characteristics perspectives, rather than treating them as competing and mutually exclusive explanations of job satisfaction, and tests the theories in a field setting. For me personally, this study was also significant in that it helped broaden my understanding of the linkages between social-structural and socio-cognitive theories and processes. Developing a greater understanding of these issues by writing this paper informed my later work on the social construction of markets.

Finally, in addition to my published research, my influence on research in my field is also demonstrated by the fifty-two reviews I have written for journals, my appointment to the editorial boards of the *Academy of Management Journal* and *Organization Science*, my reviewing efforts for the *Academy of Management Annual Meetings*, including winning an Above and Beyond the Call of Duty Award from the OMT division for my reviewing efforts in 2000, and the reviewing I perform yearly for the *Organization Science Dissertation Proposal Competition*. This past fall I also served as a judge for the competition's finals. I have also presented thirty-three papers at conferences, and been invited to present my research at Northwestern University, Purdue University, Emory University, and the Utah/BYU Winter Strategy Conference.

Published Manuscripts and Working Papers

<u>REFEREED JOURNAL PUBLICATIONS</u>

1. Wade, James B., Joseph F. Porac, Timothy G. Pollock & James Meindl (1997) "Hitch Your Wagon to a CEO Star? Testing Two Views about the Pay, Reputation and Performance of Top Executives." <u>Corporate Reputation Review</u>, 1:1-2, 103-107.

2. Wade, James B., Joseph F. Porac & Timothy G. Pollock (1997) "Worth, Words and the Justification of Executive Pay." <u>Journal of Organizational Behavior</u>, 18, 641-664.

3. Thomas, Howard, Timothy G. Pollock & Philip Gorman (1999) "Global Strategic Analysis: Frameworks and Approaches." <u>Academy of Management Executive</u>, 13(1), 70-82.

4. Thomas, Howard & Timothy Pollock (1999) "From I-O Economics' S-C-P Paradigm Through Strategic Groups to Competence-Based Competition: Reflections on the Puzzle of Competitive Strategy." <u>British Journal of Management</u>, 10(2), 127-140.

5. Porac, Joseph F., James B. Wade & Timothy G. Pollock (1999) "Industry Categorizations and the Politics of the Comparable Firm in CEO Compensation." <u>Administrative Science Quarterly</u>, 44(1), 112-144.

6. Pollock, Timothy G., Robert C. Whitbred & Noshir Contractor (2000) "Social Information Processing and Job Characteristics: A Test and Integration of Two

Theories with Implications for Job Satisfaction." Human Communication Research, 26(2), 292-330.

7. Pollock, Timothy G., Harald M. Fischer & James B. Wade (2002) "The Role of Power and Politics in Repricing Executive Options." Academy of Management Journal, 45(6): 1172-1182.

8. Carpenter, Mason A., Timothy G. Pollock & Myleen M. Leary (2003) "Governance, the Experience of Principals and Agents, and Global Strategic Intent: Testing a Model of Reasoned Risk Taking." Strategic Management Journal, 24: 803-820.

9. Pollock, Timothy G. & Violina P. Rindova (2003) "Media Legitimation Effects in the Market for Initial Public Offerings." Academy of Management Journal. Forthcoming.

10. Pollock, Timothy G., Joseph F. Porac & James B. Wade (2004) "Constructing Deal Networks: Brokers as Network 'Architects' in the U.S. IPO Market and Other Examples." Academy of Management Review. Forthcoming

11. Fischer, Harald M. & Timothy G. Pollock "Sociopolitical Transformational Shields and IPO Firm Survival." Academy of Management Journal. Forthcoming

12. Hayward, Mathew L.A., Violina P. Rindova & Timothy G. Pollock "Believing One's Own Press: The Antecedents and Consequences of Chief Executive Officer Celebrity" Strategic Management Journal, Forthcoming.

REFEREED CONFERENCE PROCEEDINGS

13. Pollock, Timothy G., Ranjay Gulati & Anthony Sadler (2002) "Relational and Market-Based Legitimation of Internet IPOs." Best Papers Proceedings, Academy of Management Annual Meeting, BPS 11-16.

NON-REFEREED PUBLICATIONS

14. Porac, Joseph F., Yuri Mishina & Timothy G. Pollock (2002) "Entrepreneurial Narratives and the Dominant Logics of High Growth Firms" in Anne Huff & Mark Jenkins (Eds.) Mapping Strategic Knowledge, Thousand Oaks, CA: Sage: 112-136.

15. Pollock, Timothy G. (2000) "Interview with OMT Distinguished Scholar Howard Aldrich" OMT Newsletter, Fall. http://www.aom.pace.edu/omt/newsletter/aldrichinterviewfall00.htm

MANUSCRIPTS UNDER REVIEW

16. Mishina, Yuri, Timothy G. Pollock and Joseph F. Porac "Are More Resources Always Better for Growth? The Impact of Managerial Logics and Resource Slack on Short-Term Revenue Growth" *Under Third Review* at Strategic Management Journal.

17. Wade, James B., Joseph F. Porac, Timothy G. Pollock & Daniel Rodriguez "The Burden of Celebrity: The Impact of CEO Certification Contests on CEO Pay and Performance" *Revise and Resubmit* at Academy of Management Journal.

18. Rindova, Violina P. & Timothy G. Pollock "Celebrity Firms: The Social Construction of Market Popularity" *Conditionally accepted* at Academy of Management Review.

19. Pollock, Timothy G. "The Benefits and Costs of Third Party Social Capital in the Initial Public Offerings Market" *Revise and Resubmit* at Strategic Organization.

WORKING PAPERS

20. Pollock, Timothy G. & Ranjay Gulati "The Role of Social Proof and Social Capital in the Legitimation of Internet IPOs"

21. Mishina, Yuri, Timothy G. Pollock, Joesph F. Porac, Hayagreeva Rao & James B. Wade "Symbolic Protests in Delegitimizing Attacks on Organizations: The Use of Shareholder Resolutions by Corporate Gadflies"

22. Pollock, Timothy G., Violina P. Rindova & Patrick M. Maggitti "The Relationship Between Post-IPO Media Coverage and Market Performance"