# Which bundles of corporate governance provisions lead to high firm performance among restaurant firms?

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## ABSTRACT

This study defends the view that the adoption of corporate governance provisions should not be seen as a detriment to firms' financial performance. On the contrary, we contend that some combinations of corporate governance provisions may indeed lead to higher firm performance among U.S. restaurant firms. Using a set-theoretic method, such as the Qualitative Comparative Analysis (QCA), our findings revealed that there are three configurations of governance provisions that lead to superior financial performance. The presence of poison pills appeared as a core condition in all solutions. Negated analysis indicates that the inappropriate bundling of governance provisions leads to poor firm performance.

## 1. Introduction

Corporate accounting scandals in the early 2000s sparked major public and academic interest in corporate governance provisions to protect shareholders against abusive managerial conduct. A key issue for any given corporation is which provisions to adopt or avoid. The combinations of various corporate governance provisions such as, the presence of poison pills and/or a classified board, complement and substitute for each other as a bundle of related practices in a company's governance mechanisms. For instance, more than 30 years ago, McDonald's – the torchbearer of the U.S. restaurant industry – adopted and used a poison pill provision, which is a tactic to overcome an unwelcome takeover bid to make the company unattractive to the bidder and to avoid any hostile takeover. Many years later, McDonald's remains a successful company that has been able to weather several storms pertaining to shareholder rights and corporate governance.

Over the past two decades, the adoption of such corporate governance provisions was interpreted as weakening (or restricting) shareholder rights (Agrawal and Chadha, 2005). For example, the governance index (G-index) in Gompers et al. (2003), which consists of 24 such governance provisions, is negatively related to firm value. Other studies (e.g., Bebchuk et al., 2009; Brown and Caylor, 2006) employ governance indices that support the findings of Gompers et al. (2003) by analyzing the total count of governance provisions. However, more recent studies indicate that examining the total count of provisions usually fails to fully assess and observe firm performance; thus, such

analyses are responsible for inferior firm performance. These studies contend that the use of aggregate indices of governance provisions masks the specific and directional impacts of a given subset of governance provisions on firms' financial performance. Studies in this opposing camp (e.g., Misangyi and Acharya, 2014) claim that there are several different configurations of governance provisions that may indeed lead to superior financial performance. Some studies took a decisive step to resolve this issue by identifying configurations of firms that adopted certain governance provisions but avoided adopting others. Misangyi and Acharya (2014) established that it is not the score or the index of governance provisions that matters for firms' financial performance. Rather, the combination or configuration of the strategic presence (adoption) of some and the absence (avoidance) of other provisions leads to superior or inferior firm performance. In other words, some configurations of provisions may enhance firm performance, while other combinations may lead to poor firm performance.

This puzzling phenomenon is even more critical for firms in service-oriented industries such as restaurants because their volatile financial structure leads to lasting effects of governance provisions on firm financial performance. For instance, those firms report varying degrees of earnings, retention rates, free cash flow, cash holdings, high levels of capital expenditure, and leverage on their books. This tangled financial nature of restaurant firms adversely affects the configuration of robust governance provision bundles causing those firms to have low liquidity and reduced possibilities for risk diversification with constricted ownership (Kizildag, 2015; Altin et al., 2016; Kizildag and Ozdemir, 2016;

Madanoglu et al., 2012). Additionally, concentrating on a single industry eliminates cross-industry performance outcomes and allows for control of independent variables designed to "*hold other things constant*" (Bradley et al., 1998). This is mostly because every corporation has its own business culture, strategies, and competitive landscape. Further, firms in the restaurant industry are closely embedded in the society as a whole. Those companies are very well aware of their public image and of possible negative press for failing to comply with community standards and to maintain an image of good corporate citizens. For this reason, this is evident not only on the emphasis of these companies put on their public image efforts, but also by the substantial efforts they make to maintain a good reputation and serve their stakeholders (e.g., stockholders, employees, customers, and the community),via well-established corporate governance provisions (Raifeld et al., 2006). Therefore, to achieve a long-term financial success in corporate operations (e.g., maximized and customized service delivery, optimized labor output and cost, etc.), restaurant firms need to develop efficient configurations of governance provisions for corporate innovation, venturing, and renewal activities (Madanoglu and Karadag, 2016). Taken together, these clarifications stand to reasons why our study concentrates solely on restaurant companies so that our performance assessment derived from the set of governance provisions will be economically meaningful and significant.

Extant literature ;(e.g., Guillet and Mattila, 2010; Madanoglu and Karadag, 2016) shows that using traditional governance provisions indices has limited performance implications, as firms in the restaurant industry rarely, if ever, adopt more than 2/3 of the 25 provisions included in the G-index (Gompers et al., 2003). That is, if one was to use the criteria of at least 14 out 24 corporate governance provisions of Gompers et al. (2003) as a cutoff for firms with "high management power" (e.g., weak shareholder rights), there would be no restaurant firms in that portfolio. Generally speaking, this is mostly because there is a significant insider presence on the Board of Directors of restaurant companies. They sometimes have more than 20% insiders on their Boards as Cheesecake Factory did for many years. In a nutshell, this indicates the level of influence that the CEOs can exercise upon the members of the Board. As a result, this pattern dramatically reduces the independence of the Board, and hence, restricts those companies from adopting numerous corporate governance provisions (Raifeld et al., 2006). Due to these reasons, we contend that looking at the sheer count of governance provisions has limited implications for the restaurant industry and suggest that studies should focus on the configurational effect of provisions rather than their total count to better analyze firm financial performance. We also posit that, how firms bundle those provisions matters for achieving high or experiencing low financial performance. Thus, we aim to extend and advance the approach of previous methodologies (e.g., Madanoglu and Karadag, 2016) by using the six corporate governance provisions of Bebchuk et al. (2009) to demonstrate that different causal recipes of corporate governance provisions account for high financial performance in restaurant firms. We contend that neither a single provision nor the adoption of all governance provisions is sufficient to hurt firms' financial structure, operations, and performance. We also contend that any analysis exploring which governance provisions truly matter should not examine provisions in isolation but should consider which combinations of provisions (causal recipes) influence firm financial performance. Further, we postulate that the poison pill is a core condition (a necessary ingredient) in all provision configurations of restaurant firms' financial performance. In so doing, we use set-theoretic methods such as a Qualitative Comparative Analysis (QCA), which focuses on cases (e.g., firms) instead of variables, to identify configurations of high-performing firms that either adopt or avoid certain governance provisions. We complement the existing evidence by providing an extensive economic outlook, a practical understanding, and an empirical assessment

of governance provisions and firm performance for restaurants. Our key contribution is that we put forward causal recipes of corporate governance provisions that may lead to high or low restaurant firm performance.

## 2. Related literature and background

### 2.1. Corporate governance

Corporate governance can be explained as the complex set of constraints that shape the ex-post bargaining over the quasi-rents generated by a firm (Zingales, 1998). Gillan and Starks (1998, p. 4) define corporate governance as "the system of laws, rules and factors that control operations at a company." Taking a micro perspective, Shleifer and Vishny (1997, p. 737) express it as "the ways in which suppliers of finance to corporations assure themselves of getting return on their investment." Irrespective of a definition, corporate governance mechanisms fall into two broad categories: 1) factors that are external to firms such as, law and regulation, capital markets, market for capital control, labor markets, and product markets, and 2) factors that are internal to firms such as boards of directors, managerial incentives, capital structure, bylaws and charter provision, and internal control systems.

Corporate governance studies predominantly use the agency theory (Dalton et al., 1998; Shleifer and Vishny, 1997) as the underpinning theoretical foundation. Agency theory is predicated on the assumption that managers are self-interested and do not bear the full wealth effect of their decisions. Therefore, managers' interests are not fully integrated with those of shareowners, which could be detrimental to shareholders' wealth maximization goals. Internal and external governance mechanisms provide shareholders with tools to align the interests of managers with their own (Walsh and Seward, 1990) and to ensure that managers strive to achieve outcomes that are in the shareholders' best interests (Shleifer and Vishny, 1997). While agency theory dominates corporate governance research, other theoretical perspectives have been developed for governance studies. Among these are resource dependence theory, which addresses board members' contributions as boundary spanners of the organization (Dalton et al., 1999; Hillman et al., 2000), and stewardship theory, which argues that managers' interests are frequently isomorphic with those of shareholders (Davis et al., 1997) and that in many situations managers believe that serving shareholders' best interests also serves their own interests (Lane et al., 1998).

### 2.2. Corporate governance provisions and firms' financial performance

A firm with good governance provisions provides more transparent disclosure of the allocation of decision and control rights between the firm and its investors, and this fair practice makes it more investor friendly relative to firms that do not disclose (Anderson and Gupta, 2009). In line with this argument, because "better governance enables firms to access capital markets on better terms" (Doidge et al., 2007, p. 2), firms with good governance provisions should enjoy higher market performance and firm valuation. Previous governance research explores this matter in depth, with a long stream of research relying on individual governance proxies such as board structure (Zahra and Pearce, 1989; Müller, 2014; Bhatt and Bhattacharya, 2015), board independence (Ghosh and Sirmans, 2003), managerial stock ownership (Mehran, 1995), top management compensation (Mehran, 1995; Carpenter and Sanders, 2002), and ownership concentration (Cho, 1998; Demsetz and Villalonga, 2001) to operationalize corporate governance. Another line of research uses summary measures of corporate governance (governance indices) such as the G-index (Gompers et al., 2003), the "Entrenchment Index" (E-index) in Bebchuk et al. (2009),

and the "Governance Score" (Gov-Score) in Brown and Caylor (2006) to link governance to firm valuation.

Early examinations of the intended association between corporate governance and financial performance primarily employed individual governance proxies (Hermalin and Weisbach, 1991; Yermack, 1996; Bhagat and Black, 2002; Core et al., 2006). For instance, Hermalin and Weisbach (1991) and Bhagat and Black (2002) studied board structures and found no significant relationship between the proportion of outside directors and Tobin's Q (proxy for market value). In contrary, in a similar study, Knyazeva et al. (2013) showed that outside directors are positively associated with both firm value (market-to-book ratio) and operating performance (return on assets – ROA). Yermack (1996) documented an inverse relationship between board size and Tobin's Q, particularly emphasizing the impact of tightened control mechanisms on small boards and its reflection in firm value. Examining the role of managerial pay structure as a governance attribute in a system of pay-performance equations, Mehran (1995) found that firm value (proxied by Tobin's Q) is positively related to the percentage of executives' equity-based compensation.

With the availability of larger data sources in the 2000s, corporate governance research has experienced a shift in the operationalization of corporate governance and has started using large indices instead of individual proxies. For instance, the G-index assigns firms into different portfolios based on 24 corporate governance provisions reported by the Investor Responsibility Research Center (IRRC). Firms in the highest decile of the index (with scores of 14 and higher) are placed in the "dictatorship portfolio" because they have high management power or weak shareholder rights. Firms in the lowest decile are placed in the "democracy portfolio" and are described as having low management power or strong shareholder rights. Using a sample of 1500 firms, Gompers et al. (2003) documented that firms with a higher G-index score (firms with fewer shareholder rights) has lower firm valuation and lower stock returns. Their findings also exhibited that firms with more antitakeover provisions (high G-index score) have lower operating performance compared to firms with a lower number of antitakeover provisions (low G-index score). This finding was later supported by Core et al. (2006) and Bhagat and Bolton (2008).

Accounting for the endogenous nature of the relationship between governance and operating performance, Bhagat and Bolton (2008) estimated a system of simultaneous equations involving corporate governance (G-index), operating performance (ROA), capital structure, and ownership structure as endogenous elements of the system. They reported a positive association between good governance (higher shareholder rights, lower G-index score) and ROA. Harford et al. (2012) used the G-index along with ownership concentration to measure corporate governance and found that firms in the lowest quartile of the G-index have significantly higher profitability and those in the highest quartile have significantly lower profitability. They thus concluded that firms with weak shareholder rights are 1.6% less profitable than their industry peers. Harford et al. (2012) also reported a significant impact of governance on firm value, asserting that firms in the lowest quartile of the G-index have significantly higher market-to-book ratio, while those in the highest quartile of the G-index have significantly lower market-to-book ratio.

Bebchuk et al. (2009) showed that not all governance provisions included in the G-index matter to the same degree in affecting firm valuation. Their study revealed that only six entrenching factors really matter in the relationship between corporate governance and firm valuation: staggered boards, limits to shareholder amendments of the bylaws, supermajority requirements for mergers, supermajority requirements for charter amendments, poison pills, and golden parachutes. Thus, they constructed an alternative antitakeover index (E-index) that includes only these six provisions. An empirical examination of the E-index revealed that entrenching provisions, both individually

and aggregated, are negatively correlated with Tobin's Q. The authors' examination also unfolded that 18 other provisions included in the G-index, but not in the E-index, had no significant correlation with Tobin's Q.

While this summary of governance measures (G-index, E-index) has attracted considerable attention from governance researchers, a group of researchers has made deliberate attempts to measure the effects these individual provisions have on firm performance and valuation. Faleye (2009) showed that staggered boards degrade firm value by entrenching management and reducing director effectiveness. Bebchuk et al. (2009) also reported that staggered boards are associated with an important reduction in firm value measured in Tobin's Q. The poison pill is another governance provision that companies adopt to increase protections against hostile takeover threats. Even in the absence of other protective governance provisions, poison pills act as a strong deterrent against hostile takeover bids. Moreover, firms adopting poison pills with no preexisting governance provisions yield higher stock returns and they could also help increase operating performance. Operating performance generally increases over a five-year window following poison pill adoption (Danielson and Karpoff, 2006).

While there is considerable support for the alleged effect of individual governance provisions on financial performance and valuation, evidence regarding the effectiveness of any one mechanism is not encouraging (Misangyi and Acharya, 2014). Although some scholars call for corporate governance research to take a more holistic approach in investigating the interdependencies of governance provisions operating as a bundle (Dalton et al., 2007; Tosi, 2008), we still know little about how different corporate governance mechanisms operate together to affect financial performance. In this study, we tackle this matter and ask the question "what combinations of individual governance provisions matter for firms' financial outcomes?" Our effort does not concentrate solely on individual or cumulative effects of governance provisions, but on the configurational effects of these provisions. More specifically, we contend that there are multiple combinations where the presence of some provisions and the absence of others lead to firm performance. Based on our examination, we also posit that the poison pill is a core condition (e.g., a necessary ingredient) in all configurations of high firm performance.

## 3. Methodological procedures

In the present study, we use a set-theoretic method – a crisp-set Qualitative Comparative Analysis (QCA) (Ragin, 2008) – in which cases (e.g., restaurant firms), comprise combinations or bundles of theoretically relevant properties such as, corporate governance mechanisms. Those mechanisms serve as causal conditions that lead to an outcome, which is the firms' financial performance. Similar to Misangyi and Acharya (2014), we explore which bundles of governance mechanisms, if any, create sufficient conditions for high firm performance. The following describes the sufficiency analysis in more detail. The first step in a sufficiency analysis is identifying and selecting cases to code their set membership in predictor conditions such as, corporate governance provisions, and the outcome (Misangyi and Acharya, 2014).

### 3.1. Sample

The sample of our study was twenty-three publicly listed U.S. restaurant firms in 2005 (see Appendix A for the full sample). We chose this year because it came after enactment of the Sarbanes-Oxley law but preceded the Great Recession (2008–2009) in the United States (Misangyi and Acharya, 2014). To establish causality, we used a lagged design that measured firm performance in 2005 and corporate governance provisions from 2004. For the purpose of this study, only the firms that had available IRRC data in 2004 were used in the final

analysis. Consequently, our final sample included 23 restaurant firms. Our sample size was empirically appropriate for QCA because it constituted a cross-case analysis where knowledge of cases (e.g., restaurant firms) was paramount. Fiss (2011) suggests that an ideal sample size for QCA ranges between 10 and 50 cases. To address the concern about whether our sample is scientifically adequate for set-theoretic methods (QCA) analysis and representative, we run a simple *t*-test to compare our sample (N = 23) against other public restaurant firms that do not have data in the IRRC (N = 52). Our results show that there is no significant difference on the basis of firm age, ROA, and all the other performance variables we used in the robustness checks. Our sample was not only in line with the recommendations from previous studies but also it is adequate for set-theoretic methods (QCA) analysis. Therefore, we conclude that our sample is still statistically representative of the universe of publicly-traded US restaurant firms within the context we mentioned in our paper.

### 3.2. Data analysis and predictor conditions

Corporate governance provisions were used as predictor conditions, and data for these provisions were retrieved from IRRC. IRRC reports 24 governance provisions for the period between 1990 and 2006. While these provisions have been used in prior studies (e.g., Gompers et al., 2003), some scholars (e.g., Bebchuk et al., 2009) contend that most of these provisions are not related to firm value and looking at a smaller set of provisions would be more revealing. However, even if one is to look at say 4 provisions, then a score of 2 out of 4 on these provisions, which provisions exactly matter. Thus, there exist a need to identify sets of combinations that influence firm-financial performance. To achieve this we use QCA where the E-index of Bebchuk et al. (2009) and its six provisions of poison pill, supermajority voting, golden parachutes, classified board, voting to amend charter, and voting to amend bylaws are used as conditions leading to an outcome. In IRRC, these provisions are reported as binary measures: a score of 1 denotes a presence, while a score of 0 implies an absence of a given provision in a firm's annual filings. Financial data for the performance proxies were obtained from CRSP files along with COMPUSTAT files. The outcome condition in this study is firms' financial performance. Our proxies for firms' financial performance are multifold. For our main analysis, we compute return on assets – ROA – as Earnings Before Interest and Taxes (EBIT) to Total Assets (Hsu and Jang, 2009). ROA is quantified based on the many empirical approaches on the basis of predicted relationships with accounting items on the financial books (Barreda and Kizildag, 2015). Moreover, we believe that if financial performance proxies are analyzed, it is critical to adjust for risk and market-based conditions to ensure robustness of the findings (O'Sullivan et al., 2009; Sharpe, 1964; Combs et al., 2005; Fornell et al., 2016). Thus, we estimated Tobin's Q and Jensen's Alpha as forward-looking, market-based measures for our robustness checks and additional analyses.

In a crisp-set QCA, all conditions must be calibrated as 0 or 1. A value of 1 denotes that a case is "fully in," and a value of 0 implies that a case is "fully out" in a membership set. As noted before, in IRRC dataset, corporate governance provisions take values of 0 and 1 and thus are not subject to additional calibration. ROA, in contrast, is measured as a ratio of return on assets and needs further calibration. In line with previous studies in strategic management, we assessed firm financial performance relative to industry financial performance. That is, observations of restaurant firms that achieved an ROA higher than the restaurant industry median in 2005 were coded as 1. Firms whose ROA observations for 2005 were below the industry median were coded as 0. Thus, 1 means that a firm is "fully in" a set of high-performance membership firms, while a score of 0 means that a firm is "fully out." As noted, to establish causality and to control for momentum effects, ROA was forwarded one year ($t + 1$) relative to predictor conditions.

### 3.3. Estimation procedures and data analysis

The key contention in this study is that various configurations (bundles) of governance provisions lead to high firm performance. That is, this paper rests on the assumption of equifinality where there are multiple paths that lead to an outcome. Unlike traditional correlational analysis, where the interest is in the net effect of each variable, equifinality is best tested with QCA, where several configurations or combinations of conditions lead to an outcome (e.g., firm financial performance). In addition, it can be argued that the relationships between corporate governance provisions and firm financial performance is beset with causal complexity where the presence of some provisions along with the "strategic" avoidance of some provisions may lead to firm performance. Disentangling such complex relationships requires the use of non-parametric, qualitative analysis.

Due to the configurational effects of governance provisions, we adopted a set-theoretic technique – (QCA) (Ragin, 2008) – that builds a set of causal conditions (e.g., bundles of governance provisions) whose presence or absence lead to a given outcome. That is, rather than using the aggregate score of these provisions (e.g., E-index), QCA allows us to identify provisions whose absence in one configurations but presence in another one leads to high firm performance. Indeed, QCA focuses on causal recipes (i.e., configurations) rather than ingredients or causal conditions (i.e., equivalents of variables in parametric analysis). Using the analogy of recipes, it is worth emphasizing that a given ingredient may work well in one recipe (i.e., configuration) but it should be strictly avoided in another one. This logic is of utmost importance to research areas such as corporate governance provisions where the presence of a given provision may be critical for firm performance in one recipe, whereas its absence may be a necessary condition in another one. What is more, QCA also includes a third situation where a given condition's presence or absence does not make a difference in that recipe. While more technical explanations will follow, this section was designed to introduce the QCA in layman's terms.

Additionally, unlike correlational analysis such as linear regression (OLS) and/or logistic regression, where the interest is in the net effect of each variable, QCA establishes relationships based on common characteristics or patterns of similarity among cases (restaurant firms in this study) to delve into casual relations that share the same qualitative outcome (Ragin, 2008; Vergne and Depeyre, 2016). Therefore, rather than these traditional linear regression models, QCA suits our main objectives and purposes well since this set-theoretic technique allows us to accommodate the combinations and the configurational effects of provisions as "absent" and/or "present" leading to firms' financial outcomes. Further, our study rests on the equifinality assumption that there is more than one way (path) to achieve superior firm performance. Unlike traditional correlational analysis, where the interest is in the net effect of each variable, equifinality is best tested with QCA, where several configurations or combinations of conditions lead to an outcome (e.g., firm financial performance). Another feature of QCA is the assumption of asymmetry, which denotes that combinations of conditions that lead to an outcome (e.g., success) are different from bundles of conditions that predict the opposite outcome (e.g., failure). In the present study, asymmetry is tested through negation analysis.

Further, QCA is based on Boolean algebra, in which a presence or an absence of a condition is either a necessary or a sufficient condition for an outcome to occur. A necessary condition denotes that a given attribute must be present for an outcome to happen. However, there is usually more than one set of conditions (e.g., causal recipes) or paths that lead to an outcome. Therefore, these conditions are necessary but insufficient to cause that outcome, whereas the sets (paths and/or bundles) are unnecessary but sufficient combinations that lead to an outcome (Ragin, 2008). In technical terms, conditions in these configurations are necessary but configurations are not because there is more

than one path that leads to the outcome.

QCA reports three different "solutions": complex, parsimonious, and intermediate (Fiss, 2011). The complex solution is generally not used because it does not include counterfactual analysis. Thus, the accepted convention in QCA modeling is to use parsimonious and intermediate solutions because they include counterfactuals such as, logically possible combinations that are not observed in the empirical data. The intermediate solution is the preferred solution because it offers a "middle of the road" option as it stands between complex and parsimonious solutions and encompasses simplifying assumptions that are consistent with present empirical evidence and theoretical knowledge about "easy counterfactuals" (Greckhamer et al., 2013; Misangyi and Acharya, 2014). Several measures were used to evaluate the power and the relevancy of our model. The first is consistency, which denotes that a given configuration of conditions (in this case, governance provisions) should lead to the posited outcome (in this case, high firm performance). In other words, it is plausible that a given set of provisions may lead to both high and low financial performances. If the theorized outcome is high performance, then the desired consistency of predicting high performance should be at least 80.0% (Ragin, 2008; Fiss, 2011). As noted above, in QCA, more than one causal recipe (bundle and/or configuration) leads to an outcome. Therefore, researchers should evaluate not only the individual consistency of a given bundle of conditions but also the consistency for the overall solution of all bundles. The minimum acceptable threshold for overall consistency is also 80.0% (Ragin, 2006). Sufficiency analysis in QCA is based on a truth table algorithm that includes all feasible and empirically emerging configurations of causal conditions. To build the truth table, a researcher must set a priori the minimum frequency at which each configuration occurs (Misangyi and Acharya, 2014). In constructing truth tables, given our sample size of 23 firms, we used the cutoff value of 1 for each configuration. That is, any configuration that appears at least once is included in the final analysis.

Another indicator in QCA is coverage that shows the percentage of cases that can be predicted based on the posited model. Similar to consistency, coverage is reported both for the overall solution and for each bundle of conditions (Fiss, 2011). Within each bundle, there are two types of coverage: raw and unique. Raw coverage indicates the proportion of case memberships (e.g., firms with high financial performance) that can be explained by each bundle of conditions. Generally, more than one combination leads to an outcome. Therefore, raw coverage is inclusive of overlaps between bundles. Unique coverage shows the coverage that can be specifically attributed to a given bundle of conditions (Ragin, 2006). Unlike consistency, coverage does not have a minimum cutoff value. However, low coverage may denote low empirical relevance of the proposed model (Misangyi and Acharya, 2014).

There are two types of conditions in our QCA analysis: core and peripheral. Core conditions are those that appear in both the parsimonious and intermediate solutions. The presence of a core condition is marked as "black large target sign" and the absence of a core condition is marked as "open large circle". Peripheral (or contributing) conditions appear only in the intermediate solutions. The presence of a peripheral condition is depicted with "black small target sign". An "open small circle" denotes the absence of a peripheral condition. Blank spaces indicate a "don't care" situation where neither the absence nor the presence of a condition has a causal relationship with the posited outcome of interest (Campbell et al., 2016; Fiss, 2011). As Misangyi and Acharya (2014) suggest, the key assumption in our analysis is that governance provisions do not act in isolation but are interdependent. Thus, the firm performance equation is derived as follows:

$Firm\ performance_{it+1} = f(corporate\ governance\ provisions)_{it} = f(poison$
$pill, supermajority, amend\ charter, amend\ bylaws\ golden\ parachutes)_{it}$ (1)

Besides our main analysis detailed above, we have taken several additional precautionary steps to ensure that our results are not confounded by other conditions or alternative measurements of our outcome condition (firm financial performance). We ran alternative analyses to check whether our results can be affected by other specific conditions explaining firms' financial performance. First, we ran two separate robustness analysis with two prominent contextual conditions that are used as control variables in hospitality management literature (firm size and franchising). These two conditions were included separately into our analysis because the addition of each condition increases the number of configurations exponentially by a factor of $2^k$ ($k$ is the number of conditions) (Misangyi et al., 2017). Such increases in combinations in turn leads to difficulties with interpreting results and may also cause "the problem of limited diversity." Limited diversity occurs when the number of configurations is higher than the number of cases (e.g., firms) where each firm potentially accounts for a configuration on its own and also numerous configurations remain unpopulated.

Firm age is measured as number years since founding and was calibrated as follows. In line with previous literature on QCA, we used the 25th, 50th and 75th percentiles to create fuzzy sets of these conditions (Fiss, 2011). Firms in the top 25th percentile were considered "fully in" and would take the value of 1. Firms in the 75th percentile are considered "fully out" and have the value of 0. The cross-over point was set at the 50th percentile and would take a value of 0.50. This approach creates a fuzzy set where values of firm age are bounded between 0 and 1, where they may take continuous values such as 0.06, 0.58, 0.86 etc. The second contextual condition – franchising – was a binary (crisp-set) measure where restaurant firms that franchise were coded as 1 and the ones that did not franchise were coded as 0.

Second, we employed alternative proxies to capture firm financial performance. Extant literature shows that, in addition to ROA, Tobin's Q and Jensen's Alpha are two other important measures of firms' financial performance. Tobin's Q was calculated as in Chung and Pruitt (1994) and Jensen's Alpha was estimated as in Jensen (1968). For sake of consistency, we used industry-specific, forward-looking values ($t + 1$) for both measures. The calibration was done in the same fashion as for firm age where the top 25th values were calibrated to "1" and so on. Next, we created a fuzzy-set measure of forward-looking $ROA_{t+1}$ to explore whether our results are due to suing a crisp-set approach. The calibration of forward-looking $ROA_{t+1}$ was conducted in an identical manner to alternative performance measures above.

Lastly, to rule out the possibility that our results are driven by a "single-year" performance effect, we estimated a 3-year industry-adjusted average for ROA on the basis of years 2003, 2004 and 2005. Then, we created a crisp-set condition where firms whose performance exceeded the 3-year average of industry-adjusted ROA were coded as 1 and 0 otherwise. To sum up, in our analysis, we first look at indicators that attest to the empirical power of various configurations of governance provisions. Next, we interpret each of these configurations and the representative conditions that constitute sufficiency to explain firms' financial performance.

**Table 1**
Selected Summary of Descriptive Statistics.

| Governance Provisions | Descriptive Stats. | | | | |
|---|---|---|---|---|---|
| | $\bar{x}$ | $\sigma$ | Min. | Max. | Obs. (n) |
| Poison Pill | .608 | .499 | 0 | 1 | 23 |
| Classified Board | .695 | .470 | 0 | 1 | 23 |
| Golden Parachutes | .695 | .470 | 0 | 1 | 23 |
| Supermajority Voting | .217 | .421 | 0 | 1 | 23 |
| Voting to Amend Charter | .043 | .208 | 0 | 1 | 23 |
| Voting to Amend Bylaws | .217 | .421 | 0 | 1 | 23 |

**Table 2**
Provision Configurations (C) for Achieving High Performance

| Governance Provisions | Solutions/Configurations | | |
| --- | --- | --- | --- |
| | C1 | C2 | C3 |
| Poison Pill | ⨁ | ⨁ | ⨁ |
| Classified Board | ⨁ | ⨁ | |
| Golden Parachutes | ✦ | ◯ | ◯ |
| Supermajority Voting | ◯ | | ○ |
| Voting to Amend Charter | ○ | ○ | ○ |
| Voting to Amend Bylaws | | ○ | ○ |
| Consistency | 1.00 | 1.00 | 1.00 |
| Raw Coverage | .55 | .22 | .22 |
| Unique Coverage | .55 | .11 | .11 |
| *Overall Solution Consistency: 1.00* | | | |
| *Overall Solution Coverage: 0.88* | | | |

*Notes*: Black large target sign (⨁) denote the presence of a core condition. Open large circles (◯) denote the absence of a core condition. Blank small target sign (✦) denote the presence of a peripheral condition. Open small circles (○) demote the absence of a peripheral condition. Blank spaces indicate a "don't care" situation where the absence or a presence of a condition has no causal relationship with the outcome of interest. Return on Assets (ROA) is taken as an outcome condition for assessing firms' high financial performance.

**Table 3**
Provision Configurations (C) for Achieving Low Performance

| Governance Provisions | Solutions/Configurations | | | | |
| --- | --- | --- | --- | --- | --- |
| | C1a | C1b | C2 | C3a | C3b |
| Poison Pill | ◯ | ◯ | | ⨁ | ⨁ |
| Classified Board | ✦ | ◯ | ◯ | ✦ | ✦ |
| Golden Parachutes | | ◯ | ⨁ | ⨁ | ⨁ |
| Supermajority Voting | ◯ | ◯ | ○ | ⨁ | ⨁ |
| Voting to Amend Charter | ○ | ○ | ○ | ○ | ✦ |
| Voting to Amend Bylaws | ○ | ✦ | ○ | ○ | ✦ |
| Consistency | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Raw Coverage | .40 | .10 | .20 | .10 | .10 |
| Unique Coverage | .40 | .10 | .20 | .10 | .10 |
| *Overall Solution Consistency: 1.00* | | | | | |
| *Overall Solution Coverage: 0.90* | | | | | |

*Notes*: Black large target sign (⨁) denote the presence of a core condition. Open large circles (◯) denote the absence of a core condition. Blank small target sign (✦) denote the presence of a peripheral condition. Open small circles (○) demote the absence of a peripheral condition. Blank spaces indicate a "don't care" situation where the absence or a presence of a condition has no causal relationship with the outcome of interest. Return on Assets (ROA) is taken as an outcome condition for assessing firms' low financial performance.

## 4. Results and discussions

There were some differences in the mean and standard deviation values for the six governance provisions we tested. As can be seen in Table 1, voting to amend bylaws had the lowest mean value ($\bar{x} = 0.043$), whereas, classified board and golden parachutes scored the highest mean values ($\bar{x} = 0.695$) in our sample of restaurant firms ($n = 23$). In other words, approximately 4% of the firms in our sample adopted voting to amend bylaws provision, whereas, more than 2/3 of the firms used the classified board and golden parachutes provisions.

Our findings reveal several paths that include adopting some provisions while avoiding some others, which leads to firms' financial success. The intermediate solution shows three configurations of causal conditions that lead to high firm financial performance (see Table 2). Jointly, these configurations account for 88.0% of the cases of high-performing firms. The overall model solution and each of these three configurations has a consistency of 1.00. This value is well above the suggested cut-off value of 0.80, which increases our confidence in the proposed model (Fiss, 2011).

We also focus on the interpretation of the three different configurations of firms that achieved high financial performance. Specifically, the first path of configurations has an equal raw and unique coverage of 55%. The first set consists of restaurant firms that adopted poison pill, classified board provisions, and golden parachute provisions but did not use supermajority and voting to amend charter provisions (see Table 2). Among these governance provisions, the presence of poison pill, classified board, and absence of supermajority emerged as core conditions. The second path of conditions had a raw coverage of 22% and a unique coverage of 11%, respectively. The second configuration included restaurant firms that adopted poison pill and classified board as core conditions but were subject to the absence of golden parachutes, voting to amend charter, and voting to amend bylaws. The last and third path is represented by restaurant firms that employed a poison pill but refrained from using golden parachute, supermajority, voting to amend charter, and voting to amend bylaws provisions. Among these, the presence of a poison pill and the absence of golden parachute were core and necessary conditions. Thus, we can infer that causal recipes of governance provisions in the restaurant industry should strictly include poison pill as a key ingredient in order to achieve high financial performance and to avoid hostile takeovers. Another important condition was the presence of classified board provision, which is consistent with previous studies (Danielson and Karpoff, 2006).

QCA is an asymmetric technique where sets of conditions leading to an outcome are different from the bundles of conditions that lead to the opposite outcome. That is, we conducted a negation analysis to explore which configurations of conditions lead to low firm performance. Table 3 demonstrates an analysis of low firm performance where emerging configurations were different from our main analysis with high firm performance. The negated analysis produced six configurations that explained 90% of cases with low-performing firms and indicated a consistency of 1.00 for both the overall solution and each individual configuration. It is also worth noting that all configurations were distinct in that there were no overlaps in coverage—raw coverage and unique coverage values were equal for all configurations. Particularly, the first two configurations of the negation analysis (C1a and C1b) had two core conditions: the absence of poison pill and the absence of supermajority (See Table 3). C1a accounted for 40% of coverage (either raw or unique) of low performance. This configuration had only one condition present—classified board, a peripheral condition. C1b comprised two core conditions—the absence of classified board and the presence of golden parachute—which led to poor performance along with three other peripheral conditions. Likewise, C2 had a single condition present—voting to amend bylaws, which was also a peripheral condition. Configurations C3a and C3b consisted of identical core conditions whose presence led to low firm performance: poison pill, golden parachutes, and supermajority. The interesting observation about C3b is that it mirrors extant literature, which indicates that the higher the E-index, the lower the firm value (e.g., Bebchuk et al., 2009). Even though the presence of all six E-index provisions leads to poor performance in C3a and C3b, these configurations account for only 10.0% of cases of restaurant firms with low performance.

One of the most intriguing inferences of our results is that even though index scores such as E-Index and G-Index are correlated with firms' financial performance, they mask some important details. For example, an E-index of 0 or 1 does not necessarily mean a given firm has less restrictive (e.g., stronger) shareholder rights, which in turn should be positively related to high firm performance. Another key issue at hand is which governance provisions a given restaurant firm adopts and which ones it avoids. For instance, two firms with an equal E-index of 1 can be either high or low performing, depending on whether they avoid certain other provisions. For example, in our main analysis of high firm performance, C1 in Table 2 shows that some firms

**Table 4**
Provision Configurations (C) for Achieving High Performance with Firm Age

| Governance Provisions | Solutions/Configurations | | | |
|---|---|---|---|---|
| | C1 | C2 | C3 | C4 |
| Poison Pill | ⊕ | ⊕ | ⊕ | ⊕ |
| Classified Board | | ⊕ | ⊕ | ⊕ |
| Golden Parachutes | ○ | ✦ | ○ | ✦ |
| Supermajority Voting | ○ | ○ | | ○ |
| Voting to Amend Charter | ◦ | ◦ | ◦ | ◦ |
| Voting to Amend Bylaws | ◦ | ◦ | ◦ | |
| Firm Age | ✦ | | ✦ | ✦ |
| Consistency | 1.00 | 1.00 | 1.00 | 1.00 |
| Raw Coverage | .19 | .44 | .21 | .33 |
| Unique Coverage | .08 | .23 | .10 | .33 |
| *Overall Solution Consistency: 1.00* | | | | |
| *Overall Solution Coverage: 0.85* | | | | |

*Notes*: Black large target sign (⊕) denote the presence of a core condition. Open large circles (○) denote the absence of a core condition. Blank small target sign (✦) denote the presence of a peripheral condition. Open small circles (◦) demote the absence of a peripheral condition. Blank spaces indicate a "don't care" situation where the absence or a presence of a condition has no causal relationship with the outcome of interest. Firm age is measured as the control variable for firms' achieving high financial performance.

**Table 5**
Provision Configurations (C) for Achieving High Performance with Franchising

| Governance Provisions | Solutions/Configurations | | | |
|---|---|---|---|---|
| | C1 | C2 | C3 | C4 |
| Poison Pill | ⊕ | ⊕ | ⊕ | ⊕ |
| Classified Board | | ⊕ | ⊕ | ⊕ |
| Golden Parachutes | ○ | ○ | ✦ | ✦ |
| Supermajority Voting | ◦ | | ○ | ○ |
| Voting to Amend Charter | ◦ | ◦ | ◦ | ◦ |
| Voting to Amend Bylaws | ◦ | ◦ | ◦ | |
| Franchising | ✦ | ✦ | | ✦ |
| Consistency | 1.00 | 1.00 | 1.00 | 1.00 |
| Raw Coverage | .22 | .22 | .44 | .33 |
| Unique Coverage | .11 | .11 | .22 | .11 |
| *Overall Solution Consistency: 1.00* | | | | |
| *Overall Solution Coverage: 0.88* | | | | |

*Notes*: Black large target sign (⊕) denote the presence of a core condition. Open large circles (○) denote the absence of a peripheral condition. Blank small target sign (✦) denote the presence of a peripheral condition. Open small circles (◦) demote the absence of a peripheral condition. Blank spaces indicate a "don't care" situation where the absence or a presence of a condition has no causal relationship with the outcome of interest. Franchising is measured as the control variable for firms' achieving high financial performance.

**Table 6**
Provision Configurations for Achieving High Performance with Tobin's Q

| Governance Provisions | Solutions/Configurations | | | | |
|---|---|---|---|---|---|
| | C1 | C2a | C2b | C2c | C2d |
| Poison Pill | ⊕ | ○ | ✦ | ○ | ✦ |
| Classified Board | ⊕ | ✦ | ✦ | ○ | ✦ |
| Golden Parachutes | ○ | ✦ | ✦ | ○ | ✦ |
| Supermajority Voting | ◦ | ✦ | ◦ | ○ | ✦ |
| Voting to Amend Charter | ◦ | ◦ | ◦ | ○ | ✦ |
| Voting to Amend Bylaws | ◦ | ⊕ | ⊕ | ⊕ | ⊕ |
| Consistency | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Raw Coverage | .18 | .18 | .09 | .09 | .09 |
| Unique Coverage | .18 | .18 | .09 | .09 | .09 |
| *Overall Solution Consistency: 1.00* | | | | | |
| *Overall Solution Coverage: 0.63* | | | | | |

*Notes*: Black large target sign (⊕) denote the presence of a core condition. Open large circles (○) denote the absence of a core condition. Blank small target sign (✦) denote the presence of a peripheral condition. Open small circles (◦) denote the absence of a peripheral condition. Blank spaces indicate a "don't care" situation where the absence or a presence of a condition has no causal relationship with the outcome of interest. Tobin's Q is taken as an outcome condition for assessing firms' high financial performance.

that use poison pills but avoid other provisions are high performing. On the contrary, in the negation analysis, firms that adopt only a single provision seem to be low performing (C1a, C1b, and C2 in Table 3). This evidence demonstrates the benefits of using set-theoretic methods such as QCA, which enable us to uncover which bundles of provisions lead to high or low performance, with an understanding that corporate governance provisions should not be viewed as scapegoats of low financial performance. In parametric analysis such as multiple regression, however, a score of 1 on the E-index theoretically should lead to identical performance of two firms. Therefore, with the help of set-theoretic methods, we are able to offer a finer-grained explanation of how bundles of governance provisions may indeed determine restaurant firms' financial success and value.

### 4.1. Robustness checks and alternative analysis

This section reports the robustness checks that were explained in the methodology. The first robustness check with firm age largely supported our main analysis. It had an overall solution coverage of 0.88 and overall solution consistency of 1. Results in Table 4 show that the presence of poison pill provision appears as a core condition in all four configurations while the presence of classified board is a core condition in 3 out of 4 paths. More importantly, the configurations C2 and C4 with firm age resemble the configuration C2 in our main analysis. C2 and 4 in Table 4 jointly account for more than 50% of unique coverage for achieving high firm performance. It should be noted that the presence of firm age was a peripheral condition in three configurations: C1, C2 and C4. Next, when we analyze configurations for achieving high financial performance by adding franchising as an additional contextual condition. Our analysis demonstrates that the model with franchising yielded fairly consistent estimations compared to our main analysis with high firm performance. The overall solution coverage was 0.88 and the presence of both poison pill and classified board provisions was part of all or most configurations (See Table 5). Similarly to the configurations with firm age, the presence of franchising was a peripheral condition in three out of four configurations in Table 5. These findings were greatly aligned with our main analysis and added value to our main estimations.

In Table 6, the robustness analysis with industry-adjusted Tobin's Q revealed that this model had a coverage of 63%. While here the presence of voting to amend bylaws emerged as an important core condition, the presence of poison pill and classified board appeared in more than half of the configurations. As a consequence, we maintained our confidence in the main model's estimates with ROA as a performance outcome. As can be seen in Table 7, the substitution of firm financial performance with Jensen's Alpha showed that this model had a coverage of 45.0%. There were two configurations which lead to high Jensen's Alpha. C1 in this analysis resembled the C1 in our main model where the presence of both classified board and poison pill were core conditions. Therefore, we can conclude that results of the analysis with Jensen's Alpha largely support the findings of our main model.

For brevity purposes, our results with fuzzy-set, industry-adjusted ROA and three-year average of industry-adjusted, crisp-set ROA are reported only in the text body. The analysis with fuzzy-set industry-adjusted ROA demonstrated that this model captured about 41% of high performance firms. There were four paths with identical coverage (10%) that led to high firm performance. In these configurations, the

**Table 7**
Provision Configurations for Achieving High Performance with Jensen's Alpha

| Governance Provisions | Solutions/Configurations | |
|---|---|---|
| | C1 | C2 |
| Poison Pill | ✦ | ✦ |
| Classified Board | ✦ | ◯ |
| Golden Parachutes | ◯ | ✦ |
| Supermajority Voting | | ◯ |
| Voting to Amend Charter | ○ | ○ |
| Voting to Amend Bylaws | ○ | ○ |
| Consistency | 1.00 | 1.00 |
| Raw Coverage | .18 | .27 |
| Unique Coverage | .18 | .27 |
| *Overall Solution Consistency:* | *1.00* | |
| *Overall Solution Coverage:* | *.45* | |

*Notes*: Black large target sign (✦) denote the presence of a core condition. Open large circles (◯) denote the absence of a core condition. Blank small target sign (✦) denote the presence of a peripheral condition. Open small circles (○) demote the absence of a peripheral condition. Blank spaces indicate a "don't care" situation where the absence or a presence of a condition has no causal relationship with the outcome of interest. Jensen's Alpha (α) is taken as an outcome condition for assessing firms' high financial performance.

presence of poison pill and classified board provisions emerged as a necessary condition in at least half of these configurations. The model with the three-year, industry-adjusted crisp-set ROA, had a coverage of 72% and consisted of six configurations. The presence of poison pill and classified board appeared in four of these configurations either as a core or a peripheral condition. On the basis of all these alternative specifications and analyses, we confirmed that our results derived from the robustness checks provide persuasive evidence of the bundles of corporate governance provisions leading to high firm financial performance.

## 5. Concluding remarks

Prior research emphasizes that restricting peers to the same industry, as opposed to clustering all firms in one portfolio, improves the accuracy of estimations because of the existence of firm comparability (e.g., Gibson et al., 2000). The common ground is that estimations are substantially imprecise due to a traditional statistical focus on either individual or aggregate governance provisions on performance. Advocates have also asserted that it is best to view governance mechanisms as a bundle since some of their specific compositions are key determinants of firms' superior and/or inferior financial performance (e.g., Ward et al., 2009; Leiblein, 2003). In this study, therefore, we tackled this matter and sought a definite answer to a prominent question: "What specific bundles of governance provisions matter for firms' financial prosperity and provide higher economic prospects for their shareholders?"

We aimed to advance and extend Guillet and Mattila's (2010) concept of governance bundles by incorporating Bebchuk et al.'s (2009) six different governance provisions. In so doing, our efforts worked from the premise that more than one configuration of specific governance provisions leads to high financial performance among restaurant firms. After interpreting each of these configurations and its representative conditions, we carried over our investigation to a negation analysis to observe which configurations led to poor financial performance among those companies. In addition to our main analyses, the robustness checks with further proxies (e.g., Tobin's Q, Jensen's Alpha, etc.) strengthened the explanatory power of our main results and estimations. Briefly, the overall results we obtained from the set-theoretic method –QCA– revealed that three different paths of representative conditions were sufficient to lead to superior financial performance by

firms with the combined presence of some provisions and the absence of others. This may be because shareholders can legitimately become concerned about firms' poor performance under entrenched management and thus, intervene some governance mechanisms, both to balance the control over internal decision-making and internal monitoring and to regain the ability to correct for past managerial and strategic errors for better financial performance.

Specifically, we gleaned several interesting findings and stylized facts regarding different paths and bundles of provisions. We observed that restaurant companies should include poison pill in their governance provision structures as a key ingredient to achieve high financial performance. These firms should also allow the presence of classified board provisions, since these two provisions emerged as core conditions in all three paths. In particular, poison pill is a core necessary condition in all causal recipes for restaurant firms' superior financial performance. In these paths, supermajority, voting to amend charter, and voting to amend bylaws provisions were not necessarily important conditions and circumstances to be used as governance mechanisms by restaurant firms. Further, the presence of all six E-index provisions (e.g., the absence of poison pill, golden parachutes, supermajority, etc.) was attributable to poor performance in all solutions extracted from the negation analysis. Most of our findings were also explained by four additional performance proxies that substitute crisp-set ROA in our main analyses. For instance, one of our alternative analyses conducted with Jensen's Alpha showed that this model had coverage of 45% indicating "classified board" and "poison pill" were core conditions. The same model done with fuzzy-set industry-adjusted ROA demonstrated that bundles of provisions (e.g., "poison pill" and "classified board" provisions emerged as a necessary, core condition) captured about 41% of high performance firms. However, it should be noted that the coverage of low performance differed across all solutions. While C1a and C1b scored 40% of both raw and unique coverage of low performance, C3a and C3b mirrored the existing evidence, and these solutions demonstrated only 10% of cases of restaurant firms with low performance.

Most importantly, we learned that our results were not always straightforward. When we delved further into the E-index, we observed that restaurant firms' superior (or inferior) financial performance and strong (or weak) shareholder rights depend on the type of governance provisions endogenously and exogenously adopted and/or avoided. Two comparable companies can have an identical E-index score with distinct performance outcomes. In addition to specific bundles of provisions, a host of other factors—such as other governance factors, other operational mechanisms at a micro level, or some macro factors—drive the degree of firms' financial performance.

## 6. Implications, limitations, and future extensions

We tried to understand the representative conditions of specific bundles of governance provisions on firm performance through an agency theory lens. The main intuition and perspectives of this theory reveal that the separation of company ownership and control lies at the core of Western corporate governance systems. Agents' and principals' interests differ substantially, and agency issues do not exist in the same form under heterogeneous industries due to each industry's unique operational culture and governance context. Therefore, in the hospitality industry context, our findings indicate that while some specific bundles of provisions can be avoided and/or adopted, specific core conditions (e.g., poison pills) should be institutionalized. Rather than having stewards operate on behalf of shareholders' interests, restaurant companies need external shareholder monitoring to constitute the equilibrium between reducing the risk of under-maximization of shareholders' financial interests and exploiting managers' utility.

Our estimations and results are persuasive, and they better

approximate the reality compared to parametric techniques such as regression for restaurant companies. Thus, the conceptualization of our results – explaining the bond between different paths and sets of governance provisions and different levels of firms' financial performance – has valuable merits and critical relevancy for application by practitioners. The association between a firm's governance mechanisms and the established bundles of provisions in these mechanisms naturally influences the complex and multifaceted shareholder-management relationship. Thus, contingencies and/or mediators are sometimes needed in the bundle of available provisions. For instance, misalignment of managerial and shareholder interests are most likely to cause adverse selection and moral hazard problems in firms' governance systems and organization. Shareholders elect their agents to perform business tasks in good faith. However, if and when one party (mostly agents, such as boards as representatives of shareholders) is at risk or disadvantage due to this lack of symmetric information, efficiency in prices (e.g., equity) and quantity of goods and services sold in a given market are altered and negatively affected. Improved governance mechanisms with a group of specifically adopted provisions come into play to correct managerial errors in these types of situations for more diligent operational commitment and maximization of shareholders' best interests. At the end, shareholders and their boards of directors retain the ability to balance agency issues and regain managerial control so that both parties can take active approaches together to enhance firm performance. In this way, shareholders can also prevent potential entrenchment that might lead firms to even more negative consequences, such as bankruptcy and/or credit default. However, there is an essential technicality for the board of directors and the managerial team to weigh in these circumstances. This lies in effective managerial strategies in embracing relevant bundles of governance provisions that will enhance restaurant firms' overall financial performance and, thus, position their financial structure at the optimal level. In these cases, boards of directors need to be flexible and sensitive in their strategies and financial projections.

The paradox between agents and principals surely restricts them to effectively collaborate in reinforcing firms' operational and financial strategies, which greatly allows managers/directors more latitude to pursue self-interested operating strategies, the deployment of the firm's resources, and managerial entrenchment. For instance, dispersed defensive tactics against a possible unwanted takeover might most likely deter restaurant firms' shareholder rights plans and, thus, their financial utility (e.g., marginal returns on existing shares) because weakly structured poison pills will not permit those shareholders to buy additional shares at a discount. Strong poison pill conditions allow shareholders to buy new issue of shares at a discounted rate so that in case of a possible hostile takeover, the bidder's economic interest is diluted. Whoever is trying to acquire the firm will face higher transaction costs, which will in turn discourage the bidder to step down from the original interest and force the bidder to negotiate with the targeted firm's board. In case of targeted takeovers, a significant issue is that restaurant firms' equity prices possibly become devalued, as the most common poison pill practice is to make shares of the firms' stock look unattractive.

Even though the poison pill strategy may hinder firms' stock prices and value, this provision hurts stockholders' interests and deters firms' liquidity, and thus shareholders' rights and financial utility are not adversely affected. In the short term, it can be seen as management pursuing risk-reducing activities that lead to lower price-to-earnings multiples and dividend payouts. Over the long haul, this defensive tactic actually lifts the possibilities for risk diversification and, hence, superior financial performance. Parallel to this, restaurant corporations' supermajority amendment plays a key role in the event of hostile takeovers, mergers and acquisitions, and/or cash tender offers. The presence of pure and well-configured supermajority amendment

provisions, which require an approval of substantial shareholder majority (between 67% and 90%) in a firm's charter, is an essential condition to reduce the risk of hostile takeover, as it seriously limits management's flexibility in takeover negotiations and impediments to entry by new shareholders. As a result, the absence of specific configurations of provisions or specific covenants in these provisions' contracts might uniformly be harmful to the development of innovative investment activities and incentives to engage in the cycle of strategic investments and financially feasible projects. In this sense, it is almost inevitable for a firm to pass on a reasonable number of positive net-present-value (NPV) projects that ultimately result in non-diversified capital investments, higher costs of operations (e.g., increased weighted average cost of capital –WACC– to fund new investments), financial and business risks, and, eventually, poorer subsequent firm performance. Bottom-line, a causal recipe consisting of the right set of ingredients (related provisions), such as poison pills, super majority amendments, and golden parachutes, may indeed act as a silver lining in a firm's future financial objectives to achieve superior performance and create value for its shareholders and stakeholders.

The use and outcome of our paper is generalizable to an overall population of publicly listed restaurant companies. However, as in any other study, our results have some caveats. Thus, our paper is not free of limitations and has some minor exclusions. Our central interest in this paper is to produce configurational statements that lead to the same outcome. That is, we posit that there is more than way to achieve high firm performance (e.g., equifinality). Our equifinality arguments could not be tested with panel data analysis and/or run time-series models. This is why we used a set-theoretic method such as crisp-set QCA, which creates "if … then" analysis. Aligned with our purpose, QCA evaluates how well the chosen provision configurations account for the outcome to be explained with a strong emphasis on case by case and bundle by bundle perspective. Additionally, while we uncover some specific bundles of present and absent governance provisions, we recognize that these provisions are still coarse conditions to explain high firm performance. Therefore, future studies should delve further into various specific combinations of governance provisions (e.g., stock ownership of board members, board independence, executive compensations, disciplinary management turnover, etc.) that shape up firms' corporate strategies and enable them to achieve sustainable competitive advantage. In so doing, these studies should also integrate and measure the influence of external factors (e.g., interest rates) because firms' overall financial performance might not solely be tied to factors controlled within the organization. For instance, executive boards have the ultimate power to ratify and make capital investment and/or funding decisions, such as issuing additional outstanding equity shares, that definitely affect their stock ownership and compensation and, thus, overall firm performance. It is plausible, then, that board members with appropriate stock ownership in their compensation can be a good proxy for overall governance leading to superior financial performance. Concurrently, the present work could also extend to measuring risk-adjusted performance proxies (e.g., Upside Probability, Upside/Downside Risk Level, etc.) by employing another relevant "select group" of Gompers et al.'s (2003) 24 provisions (e.g., cumulative voting, secret ballot, weak and/or strong shareholder rights and approvals, anti-greenmail, etc.). The long-term effects of these specific and relevant sets of other provisions on price swings, equity return assessments, and profitability margins of hospitality firms can yield different observations and enhance our understanding about the relevance of governance provisions. Additionally, testing the effects of governance provisions on a firm's likelihood of default, credit ratings, credit performance, and bankruptcy would move this area of research forward, particularly for institutional investors. It is our hope that future studies embark on these fruitful avenues of scholarly research.

# Appendix A

See Table A1.

**Table A1**
Sample Restaurant Firms.

| Company: |
| --- |
| APPLEBEES INTERNATIONAL |
| BOB EVANS FARMS INC |
| BRINKER INTERNATIONAL |
| CKE RESTAURANTS |
| CHEESECAKE FACTORY INC. |
| DARDEN RESTAURANTS INC. |
| IHOP CORP. |
| JACK IN THE BOX INC. |
| LANDRY'S RESTAURANTS |
| LONE STAR STEAKHOUSE |
| LUBYS INC. |
| MCDONALDS CORP. |
| O CHARLEYS INC. |
| OUTBACK STEAKHOUSE |
| P F CHANG'S CHINA BISTRO INC. |
| PANERA BREAD CORP. |
| PAPA JOHNS INTERNATIONAL |
| RUBY TUESDAY INC. |
| RYANS RESTAURANT GROUP |
| SONIC CORP. |
| STEAK N SHAKE CORP. |
| WENDY'S INTERNATIONAL |
| YUM! BRANDS INC. |

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