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BUSINESS & SOCIETY publishes original research, book reviews, and dissertation abstracts relating to business ethics, business-government relations, corporate governance, corporate social performance, and environmental-management issues. Manuscripts relating to the field of business and society in general are also published. Submissions of theoretical/conceptual work as well as empirical studies are encouraged. **BUSINESS & SOCIETY** is the first peer-reviewed scholarly publication devoted exclusively to the field of business and society, and it is the official journal of the International Association for Business and Society (I.A.B.S.), the only independent professional association dedicated to business and society teaching and research. **MANUSCRIPTS** should be prepared in accordance with the 4th edition of the *Publication Manual of the American Psychological Association*. Double-space all manuscripts, including references, notes, abstracts, quotations, and tables, on 8 1/2 × 11 paper. The title page should include all authors' names, addresses, affiliations, and telephone and fax numbers. The title page should be followed by an abstract of 100 to 150 words. The abstract page as well as the first page of the text should include the manuscript's title without the authors' names to facilitate blind review. Tables and references should follow APA style and be double-spaced throughout. Send four (4) copies of each manuscript to Jeanne Logsdon, Ph.D., Editor, *Business & Society*, Anderson Schools of Management, University of New Mexico, Albuquerque, NM 87131-1221. A copy of the final revised manuscript saved on an IBM-compatible disk should be included with the final revised hard copy. Submission of a manuscript implies commitment to publish in the journal. Authors submitting manuscripts to the journal should not simultaneously submit them to another journal, nor should manuscripts have been published elsewhere in substantially similar form or with substantially similar content. Authors in doubt about what constitutes prior publication should consult the editor.

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FROM THE EDITOR

This issue of *Business & Society* offers a number of intriguing analyses of empirical data and judgments about the social performance of organizations as perceived by various stakeholder groups.

In the first article, Marc Orlitzsky (University of New South Wales) and John D. Benjamin (American University) report the results of their meta-analysis of studies of corporate social performance and firm risk. They identified a number of hypotheses about this relationship, and their analysis finds that the higher a firm's social performance the lower its financial risk. This is an important finding because variability of financial performance, as measured by firm risk, is a significant concern for managers, who may factor in the impacts on risk when making decisions about social performance.

In the next article, Rebecca A. Luce (Texas Christian University), Alison E. Barber (Michigan State University), and Amy J. Hillman (Arizona State University) examine the concept of familiarity as it affects the relationship between a firm's social performance and its attractiveness as an employer. They found that familiarity itself was a powerful mediating variable that fully explained the relationship between attractiveness and social performance, regardless of whether the social performance was positive or negative.

The third article, by Stelios C. Zyglidopoulos (Rochester Institute of Technology) examines the relationship between industrial accidents, such as oil spills or airplane crashes, and a firm's reputation for social performance. One surprising result of this study is that accident severity in terms of damage to the natural environment did correlate with changes in corporate reputation, but accident severity in terms of negative impacts on human life did not yield a significant correlation. Also counterintuitive was the lack of significance between changes in reputation and media attention and between changes in reputation and attribution of responsibility. By contrast, accident complexity did relate to changes in reputation: the greater the complexity, the less the impact on reputation.

In the fourth article, Cathy Driscoll (St. Mary's University, Halifax) and Annie Crombie (Dalhousie University) provide a qualitative analysis of the conflict between a large, privately held pulp and paper company in Nova Scotia and its neighbor, a small spiritual retreat and nature center.

The conflict focuses on the conditions for cutting trees near the center and on how the company influenced perceptions of the legitimacy of critics' arguments. This case analysis reveals a careful assessment of field research data within the context of current theoretical frameworks in the business-and-society field.

This issue also includes a dissertation abstract by Virginia Woods Gerde, now at the University of New Mexico. Dr. Gerde completed her doctoral work at Virginia Polytechnic Institute by writing a dissertation on "The Design Dimensions of the Just Organization: An Empirical Test of the Relation Between Organization Design and Corporate Social Performance." This dissertation received the Best Dissertation award from the Social Issues in Management Division of the Academy of Management in 1999.

Two book reviews complete this issue. Stephanie A. Welcomer (University of Maine) reviews the recent book by Aseem Prakash, entitled *Greening the Firm: The Politics of Corporate Environmentalism*. Thomas A. Hemphill (George Washington University) contributes a fitting conclusion to Volume 40 with his review of Allan Kennedy's new book *The End of Shareholder Value: Corporations at the Crossroads*.

Finally, I want to call to your attention a bibliography of 2,128 articles on business ethics that has been prepared by G. Enderle and D. Kamm from articles in six major academic journals, including *Business & Society*. The bibliography is available for \$15.00 plus \$2.00 for shipping and handling from the ISBEE Secretariat, Mendoza College of Business 393B, University of Notre Dame, Notre Dame, IN 45667, USA. Please contact Georges Enderle (georges.enderle.1@nd.edu) for detailed information about this bibliographic resource.

The year 2001 is coming to a close, and I want to express my appreciation to all the authors, reviewers, and readers of *Business & Society* for the success of the journal this year and for its continued success in 2002.

—Jeanne M. Logsdon
Editor
University of New Mexico
logsdon@mgt.unm.edu

Corporate Social Performance and Firm Risk: A Meta-Analytic Review

MARC ORLITZKY

University of New South Wales

JOHN D. BENJAMIN

American University

Building on earlier work on the relationship between corporate social performance (CSP) and a firm's financial performance, this integrative empirical study supports the theoretical argument that the higher a firm's CSP the lower its financial risk. Specifically, the relationship between CSP and risk appears to be one of reciprocal causality, because prior CSP is negatively related to subsequent financial risk, and prior financial risk is negatively related to subsequent CSP. Additionally, CSP is more strongly correlated with measures of market risk than measures of accounting risk. Of all CSP measures, reputation for social responsibility appears to be the most important one in terms of its risk implications.

Previous research reviews suggest that measures of corporate social performance (CSP), such as charitable donations, responsibility to the environment, and fair treatment of employees, may be positively correlated with return measures of firm financial performance, such as return on assets (ROA) or stock appreciation (e.g., Frooman, 1997; Wood & Jones, 1995). True economic performance, however, manifests itself in both high financial return and low financial risk. The possibility that CSP might heighten financial variability and, thus, negate its positive implications for the economic performance level has not been explored in any empirical breadth or depth. For example, Frooman (1997) meta-analyzed event studies to show how cases of irresponsible and illicit behaviors impact

AUTHORS' NOTE: The authors would like to thank Frank Schmidt, Sara Rynes, Lex Donaldson, Kathy Lund Dean, Mary Mallott, Duane Windsor, Robert Wood, three anonymous Social Issues in Management reviewers for the Academy of Management 1999 meetings, and the two reviewers of *Business & Society* for their feedback on earlier drafts.

share price performance. Thus, Frooman's study did not focus on risk, used one specific market indicator of corporate financial performance, and approached CSP from the perspective of its absence (and not various degrees of presence).

The following quantitative cross-study and cross-industry integration of empirical findings builds on previous research by expanding the scope of measurement of CSP and by focusing on business risk. In the context of CSP, firm risk has typically been considered to be an adjustment factor of return measures of financial performance. For example, Aupperle, Carroll, and Hatfield (1985) adjusted ROA figures for a firm's general risk characteristics by using Value Line's safety index. It is generally considered the most comprehensive measure of total risk confronting a firm because *safety* is defined as price stability, adjusted for trend factors and such factors as company size, market penetration, product market volatility, degree of financial leverage, earnings quality, and the overall condition of the balance sheet (*Value Line Investment Survey*, 1981, as cited in Aupperle et al., 1985, pp. 458-459). Correction of financial return measures for total risk has been argued to be necessary to ensure cross-firm and cross-industry comparisons (Aupperle et al., 1985). Nevertheless, reviews of the social-financial performance literature usually do not correct for any potentially confounding CSP-risk effects. Instead, many of these previous reviews and studies relating CSP to corporate financial outcomes have focused almost exclusively on performance level instead of performance variability (e.g., Griffin & Mahon, 1997; Ullmann, 1985; Wood & Jones, 1995). Our meta-analysis starts with the assumption that, in the context of corporate social responsibility, risk must also be considered in and of itself and not only as an adjustment factor. Therein lies the original, unique contribution of this analysis to the literature.

Risk is defined as uncertainty about outcomes or events, especially with respect to the future (Bloom & Milkovich, 1998; Brigham & Gapenski, 1996; Miller & Bromiley, 1990). *Firm risk* measures the amount of financial performance fluctuations over time (L. Donaldson, 1999). These fluctuations may occur in share prices (market risk) or in internal accounting returns (accounting risk; e.g., SD_{ROA} and SD_{ROE}). Because firm risk impairs forecasting and planning activities (Bettis & Thomas, 1990; Brigham & Gapenski, 1996; Sharpe, 1990), it indicates not only increased variability in organizational returns but also an increased chance of corporate decline and mortality (Baird & Thomas, 1985; Fiegenbaum & Thomas, 1988; Miller & Bromiley, 1990). From a practical perspective, both principals and agents are likely to be concerned about the degree of risk incurred by their firm (Bloom & Milkovich, 1998). From an organization-theory perspective, the increasing importance

of firm risk is illustrated by portfolio theory (L. Donaldson, 1999), a new model of performance-driven organizational change in which risk plays a central role. As L. Donaldson (1999) stated, "To understand whether an organization is likely to make adaptive changes or not, and whether it is likely to grow or not, we need to understand its degree of risk" (p. 18).

In the wake of stock market downturns in 2000 and 2001, more and more investors realize that it is not only the level of firm financial performance that counts but also the underlying risk of the dot-com or any other business. Finding the relationship between CSP and the level of financial performance has been a very long project in our field, dating as far back as the early 1970s. Past research has often presented CSP-risk analyses as a side issue only. However, from a managerial, practical perspective, today's managers will not only be concerned with possible predictors (and consequences) of financial performance levels but also of their variability (i.e., firm risk), especially at a time when various economic augurs predict the coming of harsh times. Executives' ability to manage firm risk can make the difference between future bankruptcy (or at least drastic downsizing) and organizational health. Over the long run, the market and events in the organization's environment are going to penalize behavior that increases firm risk. Many managers and financial analysts (as well as researchers in finance, accounting, and economics) are still convinced that CSP increases firm risk and is therefore a "punishable offense." Conversely, if a manager knows that his or her firm currently experiences high levels of risk, should he or she then decide to increase or decrease CSP?

From a theoretical perspective, our meta-analysis is also warranted because risk and return measures of organizational performance are not correlated in a straightforward way, as had been assumed for a long time by conventional economic wisdom (Chatterjee, Lubatkin, & Schulze, 1999; McNamara & Bromiley, 1999; Wiseman & Catanach, 1997; cf. Bowman, 1980, 1982, 1984; Brealey & Myers, 1981; Fiegenbaum & Thomas, 1988). If risk and return were negatively correlated (as claimed by the capital asset pricing model), then all we would have to do is find the true relationship between CSP and a firm's level of performance (and we could safely ignore risk as a variable in the equation). However, this is not the case. So even if clear aggregate findings were to show that CSP was positively correlated with financial return, its correlation with financial risk would not follow automatically.

These practical and theoretical issues could, of course, have been examined in a primary empirical study. However, we are more interested in the sign and magnitude of the context-independent association between CSP and firm risk and in the likely temporal and causal order of any effects. We think that, given its benefits, the statistical technique of meta-

analysis, which is concerned with parameters or, more specifically, true-score correlation coefficients (ρ), is best suited to answer our questions. First, meta-analysis can shed light on the empirical generalizability of previous findings—regardless of the specific study (e.g., industry) context. Furthermore, unlike primary studies, meta-analysis can determine the extent to which different measures of CSP and firm risk affect the associations found and, thus, provide evidence for measurement as a moderator of the risk-CSP relationship. Finally, meta-analysis can correct for study artifacts such as sampling error and measurement error (i.e., lack of reliability), which is not possible in primary studies.

In the following section, we develop six hypotheses linking CSP to firm risk. Not all existing studies, which have examined the relationship between social and financial performance, are included in this meta-analysis because only a minority measured risk. However, those that were integrated quantitatively can be separated according to the temporal order of measures taken: (a) prior CSP \rightarrow subsequent risk, (b) prior risk \rightarrow subsequent CSP, and (c) contemporaneous (cross-sectional) measures.

CSP AS ANTECEDENT OF RISK

From the perspective of instrumental stakeholder theory (T. Donaldson & Preston, 1995; Jones, 1995) or good management theory (Waddock & Graves, 1997), CSP is expected to decrease firm financial risk. A particular firm's disregard of implicit stakeholder claims, that is, claims by those persons or organizations with a relationship to the firm or its products, may lead to uncertain future explicit claims. In today's litigious business environment, such disregard will lead to higher risk than if stakeholder claims were considered in the firm's strategic decision-making process from the beginning (McGuire, Sundgren, & Schneeweis, 1988). Recent examples of relatively high financial risk that has arguably been caused by low CSP are the lawsuits against various air and water polluters, cigarette manufacturers, harvesters of old-growth redwoods, and wetlands developers. Firm risk may not only increase because of increasing probability of civil legal proceedings, criminal legal proceedings, or both, but it also may increase because of the increasing likelihood of regulatory intervention by state or federal governments if firms do not proactively engage in socially responsible actions.

On the other hand, firms with high CSP may be characterized as having good relations with a variety of primary and secondary stakeholders. Primary stakeholders (e.g., the firm's employees, customers, suppliers, and shareholders) are those groups, organizations, or persons without whose

continuing participation the corporation cannot survive as a going concern (Clarkson, 1995). Secondary stakeholders (e.g., local communities and the legislative branch of government) are those groups or individuals who influence or affect, or are influenced or affected by, the corporation but who are not engaged in transactions with the corporation and are not essential for its survival (Clarkson, 1995). In modern capitalist society, managerial actions in the best interests of shareholders increasingly require the fair treatment and support of all stakeholders (Berman, Wicks, Kotha, & Jones, 1999). CSP includes environmental assessment (Wood, 1991a), which allows firms to anticipate and address stakeholder concerns. By addressing these actions proactively, firms may be in a better position to decrease the variability of their business returns. Socially and ecologically responsible organizations may have incorporated organizing principles that are surprise avoiding (King, 1995; cf. Frederick, 1995). In sum, based on this set of arguments derived from the stakeholder approach, financial risk is anticipated to decrease with increasing CSP.

Hypothesis 1a: Overall, CSP is negatively correlated with firm risk.

Hypothesis 1b: Prior CSP is negatively correlated with subsequent firm risk.

The effects of CSP as the temporal, negative antecedent of financial risk will be proximate and distal, depending on the risk measure that is considered. Figure 1 depicts these relationships. Market reactions to CSP investments, the proximate effects of CSP, will be more immediate and stronger than internal accounting return fluctuations. In other words, market investors will have a more marked response to CSP than accounting measures of capital use, for two main reasons. First, corporations with stable stakeholder group relations probably encounter fewer difficulties attracting new equity investment to the firm (Burgstahler & Dichev, 1997; Clarkson, 1988; Waddock & Graves, 1997). Low investment in CSP may be interpreted as a lack of management skills because the firm has not acquired a "progressive" reputation. Therefore, potential investors and lenders would perceive a low-CSP firm's future and stock as riskier than the future and shares of a high-CSP firm (Alexander & Buchholz, 1978; McGuire et al., 1988; Spicer, 1978a). Second, because lenders and investors increasingly use social responsibility investment screens, low CSP may restrict a firm's access to market capital, which in turn contributes to greater financial risk (McGuire et al., 1988).

The distal effects of CSP investments are the tenuous, long-term learning processes in interorganizational cooperation, which enable the firm to lower transaction costs (Coase, 1937; Hill, 1990; Williamson, 1975, 1985). Trust in a contracting relationship can decrease monitoring and coordination

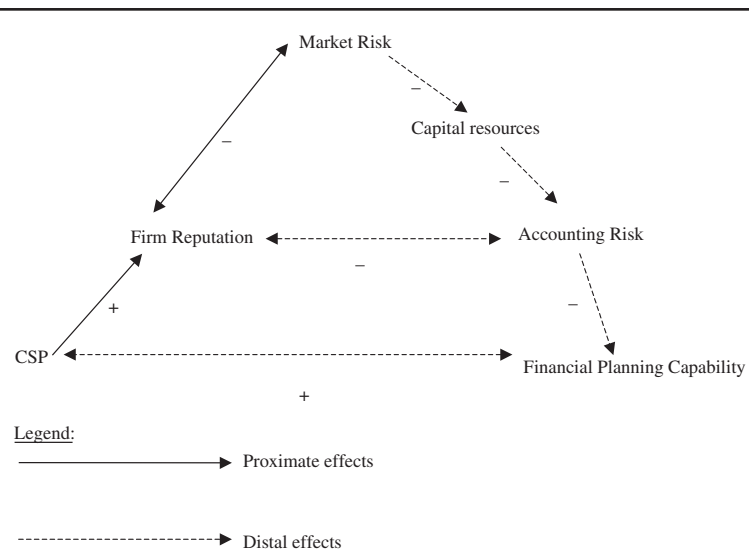


Figure 1. Toward a Dynamic Model: Corporate Social Performance (CSP)–Risk Relationships

costs (Hosmer, 1995; Milgrom & Roberts, 1992). To the extent that trusting stakeholder relations are manifested in socially responsible policies and outcomes, CSP can sow the seeds for more efficient contracting with customers and other external stakeholders, such as government agencies (Jones, 1995). Simultaneously, CSP can create an organizational expectation of altruism, in which opportunistic politicking has no place and, thus, no costs associated with it. Recruitment processes can reinforce the antishirking climate of social responsibility (Turban & Greening, 1997). However, these processes are not as closely linked as the relationship between CSP reputations and investors' positive perceptions and between CSP and market risk. For instance, consumers' preference for products of socially responsible companies over those of irresponsible companies is tenuous (Auger, Devinney, & Louviere, 1999). Seasonal forces or pricing may overshadow the ethical attributes and determine fluctuations in net income and assets (numerator and denominator, respectively, of ROA, an accounting return measure) more readily than CSP. Hence, we propose the following moderator effect:

Hypothesis 2: Measurement of firm risk moderates the relationship between CSP and risk so that the negative correlation between CSP and market risk will be stronger than the negative correlation between CSP and accounting risk.

As a corollary to the aforementioned arguments, CSP must be visible to have an effect on financial risk. One of the assumptions of instrumental stakeholder theory is that the ability to satisfy multiple stakeholder groups decreases the risk of financial decline. Without visibility of CSP, stakeholders cannot use CSP as an informational signal of a firm's successful attempts at satisfying stakeholder groups (Fombrun & Shanley, 1990). Reflecting different degrees of visibility, CSP can be measured in a variety of ways: (a) CSP disclosures; (b) CSP reputation ratings; (c) social audits, CSP processes, and observable outcomes (such as charitable contributions); and (d) CSR₁, which comprises principles and values of corporate social responsibility (cf. Post, 1991). Of those four broad categories, CSP reputation ratings are expected to show the largest negative correlation with risk because CSP reputations are visible. Furthermore, investors may regard ratings by a third party (e.g., *Fortune* magazine and academics' ratings) as more trustworthy than firms' own disclosures in annual reports or letters to shareholders. Therefore, if the CSP database is separated into broad measurement moderator subgroups, the following prediction holds:

Hypothesis 3: Of the four different categories of CSP measures, reputation indices will show the largest negative correlation with financial risk.

The extent to which an issue is institutionalized can determine its impact on firm policies (Hoffman, 1999). In comparison to other social issues, such as race or gender discrimination, the green movement cannot be demarcated by its high degree of institutionalization, especially in the United States, where most of the data were collected. Among consumers, for example, the relationship between expressed environmental concern and active consumer action is weak (Auger et al., 1999; J. A. Roberts, 1996).¹ Yet, in such areas as diversity and human resource management in general, the business community is much more aware that public responsibility can lead to financial benefits (Turban & Greening, 1997). Moreover, environmental policies (e.g., strict compliance with environmental regulations) are probably much less visible to investors and consumers than are other CSP actions (e.g., community involvement and maternity and paternity leave), because nowadays the latter are often an integral aspect of a corporation's public relations efforts to attract and retain talent. For example, specific instances of CSP are often featured on firms' Internet Web sites frequented by job searchers preparing for interviews.

Hypothesis 4: Of all the measures of CSP, corporate environmental performance will have the smallest (negative) relationship with firm risk.

RISK AS ANTECEDENT OF CSP

In their particular sample, Waddock and Graves (1997) found some evidence for a virtuous cycle between CSP and firm return. That is, CSP is not only an antecedent of the level of financial performance but also a consequence of a given level of performance. This is the case because good financial performance can provide the slack resources necessary for discretionary CSP expenses. An analogous slack-resources argument can be made for firm risk. Low risk may allow for better planning because low firm risk makes projections of a firm's future cash flows more certain (Bettis & Thomas, 1990; Sharpe, 1990). Therefore, managers in low-risk firms face less uncertainty with respect to future opportunities—and opportunity costs—concerning social responsibility. Given a sufficient level of slack resources, when financial planning and cash-flow projections are more precise and reliable, more capital can be committed to social issues that are not directly related to the economic survival of the firm. Thus, in the context of instrumental stakeholder theory, the temporal order may well be reversed.

Hypothesis 5: A negative true-score correlation is observed between prior risk and subsequent CSP.

*CONTEMPORANEOUS CORRELATIONS
(RECIPROCAL CAUSALITY)*

The virtuous cycle argument also implies bidirectionality between CSP and risk, which means that CSP and financial risk codetermine each other in the same time period (i.e., CSP ↔ risk). Arguably, current Western business environments foster a virtuous cycle (Berman et al., 1999). Media cycles are becoming shorter and shorter (Sennett, 1999). Especially in the expanding Internet environment, both good news and bad news travel fast (Kirsner, 1998). Reputations of firms can change quickly and affect firm performance, as The Body Shop stock price debacle showed so strikingly after Jon Entine's (1994) article "Shattered Image" (Kelly, 1994). For this reason, the financial risk consequences may not lag far behind changes in stakeholder assessments of CSP, and vice versa. From the perspective of the efficient markets hypothesis, the assumption that stakeholder perceptions are immediately reflected in financial performance assessments is certainly valid.

Hypothesis 6: The contemporaneous (cross-sectional) true-score correlation between CSP and risk (i.e., CSP \leftrightarrow risk) is negative.

METHOD

Meta-analysis is a quantitative method of research integration (Cooper, 1989). Increasingly, it has replaced the narrative literature review as a technique of summarizing a research area. We relied on the meta-analytic guidelines provided by Hunter and Schmidt (1990). Their meta-analytic techniques correct the observed sample statistics (the observed correlation r in primary studies) for methodological distortions due to sampling error and measurement error. These distortions are called *study artifacts*.

Each observed correlation must be weighted by the sample size of the primary study to calculate the *observed mean weighted correlation* (r_{obs}) across all of the studies involved in the analysis. The standard deviation of the observed correlations can then be computed to estimate the variability in the relationship between the variables of interest. The total variability across studies includes several components, such as the true variation in the population, variation due to sampling error, and variation due to other artifacts (e.g., lack of reliability in measures). Recognition and control of these artifacts allow for a better estimate of the true variability around the population correlation. Thus, the most important outcome of the meta-analysis is the population parameter (i.e., the estimated corrected, or true-score, correlation ρ) between any two variables.

Literature Search

Computer searches of *ABI/Informs Global (ProQuest)*, *PsycINFO*, and *EconLit* were conducted. *ABI/Informs* provides access to the full text and images of over 1,200 U.S. and international business and trade journal articles (from 1970 till today), whereas *PsycINFO* indexes abstracts of journal articles and book chapters in psychology starting in 1974. The computer searches cover the years 1982 to the present (*ABI*), 1967 to the present (*PsychLit*), 1987 to the present (*PsycINFO*), and 1969 to the present (*EconLit*). To make the search more comprehensive, cross-citations from previous narrative reviews (Aldag & Bartol, 1978; Arlow & Gannon, 1982; Aupperle et al., 1985; Frooman, 1997; Griffin & Mahon, 1997; McGuire et al., 1988, pp. 857-860; Pava & Krausz, 1995; Starik & Carroll, 1991; Ullmann, 1985; Waddock & Mahon, 1991; Wartick & Cochran, 1985; Wood 1991a, 1991b; Wood & Jones, 1995) were explored as well.

Criteria for Relevance

The studies deemed relevant for the meta-analysis have the following characteristics. First, the studies quantitatively examine the relationship between CSP and firm risk. The reported effect size does not have to be a Pearson's product-moment correlation r but can also be a t -test statistic or effect size d (both t and d can be transformed to r ; Hunter & Schmidt, 1990). Second, the studies are concerned with at least one aspect of a firm's general risk characteristics, be they accounting related or market related. Third, all retrieved measures of CSP are checked against Wood's (1991a) definition of CSP. If the dependent or independent variable cannot be classified as one of the three categories of Wood's model (see below), the study is excluded.

Operational Definitions of Constructs

CSP is a multidimensional construct and thus can be measured in a variety of ways. Wood (1991a) conceptualized CSP as a tripartite model consisting of (a) principles of social responsibility, (b) processes of social responsiveness, and (c) policies, programs, and observable outcomes as they relate to a firm's societal relationships. For our purposes, Wood's conceptual model, roughly an input-process-output systems model of CSP, was supplemented with a four-part typology of CSP centered on the four measurement categories: (a) CSP disclosures; (b) CSP reputation ratings; (c) social audits, CSP processes, and observable outcomes (such as charitable contributions); and (d) CSR₁, which comprise managerial CSP principles and values (cf. Post, 1991). Although there is no consensus on the relative quality of measures of CSP, we regard measurement diversity as beneficial at this early stage of empirical research (Harrison & Freeman, 1999). *Multiple operationalism* is an advantage because it helps determine whether a "true" relationship exists in different industry contexts with different operationalizations of the two focal constructs (Cook & Campbell, 1979; Cooper, 1989; Webb, Campbell, Schwartz, Sechrest, & Grove, 1981). However, the use of any particular measure in any given study is subject to measurement error. A meta-analysis can circumvent this downside of primary studies through the correction for relative lack of reliability, in addition to the correction of aggregated observed correlations for sampling error (i.e., deviation of primary-study sample size from infinity).

Studies of environmental management are included as a dimension of CSP for several reasons. First, several studies, especially earlier ones, use environmental performance as a proxy for social responsibility (see

Table 1). Second, stakeholder proxies, such as environmental interest groups and government agencies, may in fact claim a social “stake” for, or give voice to, nature (Starik, 1995). Finally, the business community tends to regard social responsibility as a concept comprising both social performance (in its narrow sense) and environmental performance (e.g., Willums, 1999). However, the argument can be made that the literature on CSP differs from that on corporate environmental performance in many respects. To investigate differences in the relationship of corporate environmental performance to firm risk and, thus, to examine Hypothesis 4, a separate meta-analysis is performed using only environmental performance measures.

Firm risk can be subdivided into measures of accounting risk and market risk. It is important to note that accounting risk and market risk are not so much two different conceptual components of risk as different operationalizations of the same underlying construct. *Accounting risk* can be estimated by the coefficient of variation (the ratio of the standard deviation to the mean) of return on invested capital (ROIC), a measure which was used by Fombrun and Shanley (1990), for example. Other examples of measures of accounting risk are the percentage of a firm’s total or long-term debt relative to assets (e.g., Graves & Waddock, 1994; McGuire et al., 1988; Miller & Bromiley, 1990) or the standard deviation of a firm’s long-term ROA or ROE (e.g., O’Neill, Saunders, & McCarthy, 1989).

Total market risk is defined as the degree to which stock returns for a particular company vary over time. It is typically measured as the standard deviation (*SD*) of R_{it} in Sharpe’s (1964) original model: $R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it}$, where R_{it} is the estimated return on security i in period t ; R_{mt} is the aggregate return on all securities in the market in period t (i.e., the market factor); and ε_{it} is a random disturbance term that reflects that portion of a security’s return in time period t that is not a linear function of R_{mt} (Spicer, 1978a, p. 103; 1978b, p. 73). This equation is known as the Sharpe-Lintner capital asset pricing model (CAPM; Lintner, 1965; Modigliani & Pogue, 1993; Sharpe, 1964).

Within the category of external market risk measures, total market risk is distinguished from systematic (or nondiversifiable) risk. In contrast to $SD_{R(i)}$, *systematic market risk* represents the contribution of an individual security to a completely diversified portfolio’s risk (Spicer, 1978a, 1978b) and is represented by β_i (beta coefficient) from Sharpe’s (1964) aforementioned equation. A completely diversified portfolio would mean that all risk unique to individual stock returns had been diversified away. Therefore, systematic market risk is also known as “nondiversifiable risk.” Sharpe’s β regression coefficient measures the relative volatility of a given stock versus the “market.” Thus, β is a market sensitivity index that

Table 1
Overview of Studies Included in Meta-Analysis

<i>Authors (Year)</i>	<i>N</i>	<i>Observed r</i>	<i>Number of rs Reported</i>	<i>Measure of CSP</i>	<i>Measure of Firm Risk</i>	<i>Reliability of CSP</i>
Alexander & Buchholz (1978)	41, 47	-.01 to .29	4	Reputational ratings	Beta (systematic risk)	.66
Aupperle, Carroll, & Hatfield (1985)	189	-.17 to -.08	2	Carroll's "Concern for Society"; social forecasting	5-year total risk, long-term beta	.86
Baldwin et al. (1986)	11	.26, .81 (t) ^a	2	4 exclusion scenarios based on CSP criteria among 2 California pension funds	Total risk (total <i>SD</i> of market return), beta (nonmarket risk residual <i>SD</i> of return)	
Chen & Metcalf (1980)	18	-.11, -.01	2	CEP ratings	Total risk, systematic risk	.93
Fombrun & Shanley (1990)	154	-.17 to .01	6	Charitable contributions, existing separately endowed foundation (yes/no), and media favorability ratings	Accounting risk (coefficient of variation of ROIC), market (beta) risk	.88
Graves & Waddock (1994)	430	-.16	1	KLD measure	Long-term debt/total assets (accounting risk)	
Heinze (1976)	28	-.30	1	National Affiliation of Concerned Business Students ratings of social involvement	% of long-term debt	

Herremans, Akathaporn, & McInnes (1993)	38	-.67 to -.39	12	<i>Fortune</i> "responsibility to the community/ environment" rating	Total risk (<i>SD</i> of return)	.71
McGuire, Sundgren, & Schneeweis (1988)	98, 131	-.49 to .23	15	<i>Fortune</i> "responsibility to the community/ environment" ratings	Market risk: beta, <i>SD</i> of total return; accounting risk: debt/assets, operating leverage, <i>SD</i> of operating income	.90
O'Neill, Saunders, & McCarthy (1989)	157	-.04 to .13	2	Aupperle's "Concern for Society"	Accounting risk (<i>SD</i> of long-term ROA), beta	
Pava & Krausz (1995)	14	.43, .95 (t) ^a	2	Dichotomization based on CEP rankings	Accounting risk (debt/equity), market beta	
R. W. Roberts (1992)	130	-.23, -.18	2	CEP measure of social disclosure, philanthropic foundation? (yes/no)	Beta	.36
Simerly (1995)	48	-.59 (t) ^a	1	Dichotomized <i>Fortune</i> survey measure	Accounting risk (debt/equity)	
Spicer (1978a)	18	-.25, -.16	2	CEP report	Total market risk, systematic risk (beta)	.93
Spicer (1978b)	18	-.29, -.38	2	CEP report	Total risk, systematic risk (beta)	.93
Starik (1990)	193	-.12	1	7 stakeholder management strategies (survey), combined	long-term debt/equity	.85

Table 1 Continued

<i>Authors (Year)</i>	<i>N</i>	<i>Observed r</i>	<i>Number of rs Reported</i>	<i>Measure of CSP</i>	<i>Measure of Firm Risk</i>	<i>Reliability of CSP</i>
Trotman & Bradley (1981)	83	.17	1	% of CSR _i disclosure of total lines in annual reports	Systematic risk (beta)	
Waddock & Graves (1997)	469	-.12, -.08	2	8 KLD dimensions	long-term debt/assets (accounting risk)	

Note: CSP = corporate social performance; CEP = U.S. Council on Economic Priorities; KLD = Kinder, Lydenberg, Domini & Co., Inc., holistic measure of CSP combining the following eight dimensions: (a) employee relations, (b) community relations, (c) natural environment, (d) product quality, (e) treatment of women and minorities, (f) military contracts, (g) nuclear power, and (h) involvement in South Africa (before apartheid was abandoned).
a. Denotes statistics transformed from *t* or *d* statistics to *r*; ROIC = return on invested capital.

assesses a stock's volatility relative to the market. For this reason, systematic risk is typically considered the appropriate risk measure for shareholders of diversified portfolios.

Characteristics of Primary Studies

Table 1 reports the most important study characteristics, such as authors, date of study, sample size, observed correlation or transformed or partially corrected correlation (i.e., corrected for dichotomization and unequal sample sizes in the two groups compared in a *t* test), number of correlations per study, operationalization of CSP and firm risk, and estimates of reliability of CSP. Reliability (1 – measurement error) is traditionally defined as the ratio of true-score variance to observed-score variance (Traub, 1994). The present study occasionally estimates measurement error with the coefficient of generalizability (e.g., as contained in the statistical analyses by Sharfman, 1996). The Technical Appendix presents more information on this particular coefficient of reliability. A total of 60 (*k*) correlation coefficients are meta-analyzed, with a total sample size (*N*) of 6,186 observations. The ratio of studies using internal accounting risk relative to external market risk measures is 1:2. Thirty-nine of the 60 correlation coefficients that are meta-analyzed were obtained in cross-sectional studies. However, the studies that use lagged measures of CSP and firm risk contain more observations than the integrated cross-sectional studies (*N* = 3,480 observations vs. 2,706 observations). The cross-sectional data, although arguably less meaningful than lagged data, are still useful in the context of our overall meta-analysis (see Hypothesis 6).

No data were available on the reliability of financial risk. In addition, several studies did not report coefficients of reliability for CSP. Therefore, correlations could not be corrected individually for measurement error. Instead, results obtained from primary empirical studies were meta-analyzed using artifact distributions. Artifact-distribution meta-analysis involves first computing the means and variances of reported correlations and of the considered artifacts (e.g., reliability of independent variable, reliability of dependent variable, and range variation). Then, the distribution of observed correlations is corrected for sampling error. Finally, the distribution corrected for sampling error is corrected for error of measurement (Hunter & Schmidt, 1990). Hunter and Schmidt (1990, pp. 160-173) present further technical details regarding the correction factors used for reported correlations and their variances.

RESULTS

As Table 2 shows, the overall mean observed (r_{obs}) and true-score correlations (ρ) between firm risk and CSP are negative ($r_{\text{obs}} = -.15$; $\rho = -.21$). This holds for all the different measures of firm risk and all the different measures of CSP. In addition, the temporal sequence consistent with the causal chain from prior CSP to subsequent risk (CSP \rightarrow risk) shows an even stronger relationship ($r_{\text{obs}} = -.20$; $\rho = -.28$) than the overall correlation. (Following the computational procedures suggested by Kleinbaum, Kupper, & Muller, 1988, for testing for the equality of two correlations, the difference between the two correlations is significant at $p < .05$.) The overall and temporally subdivided studies provide evidence that supports Hypotheses 1a and 1b. Hence, the data collected and analyzed between 1976 and 1997 do not show that CSP investments heighten risk. At the same time, the variance accounted for by study artifacts (sampling error and measurement error in CSP) is 24%. If this variance were 75% or more, we could safely conclude that all cross-study and cross-industry variance is due to artifacts and that no real moderators exist (Hunter & Schmidt, 1990). However, because the variance explained by artifacts is below the 75% threshold and, thus, the variance of the true-score correlation ρ is fairly large ($\text{Var}_{\rho} = .07$ in overall meta-analytic set; $\text{Var}_{\rho} = .05$ in CSP \rightarrow risk subset), the moderator breakdown suggested by Hypotheses 2 through 6 must be pursued. With few exceptions (see Table 2), the cross-study variance in r_{obs} explained by artifacts increases when the moderator breakdown analysis is applied.

Risk Subdivisions

Hypothesis 2 postulated that market risk would show a larger negative correlation with CSP than accounting risk. This hypothesis is supported by the data analysis. The true-score correlation between CSP and market risk is $-.21$, whereas the correlation between CSP and accounting risk is only $-.09$. The meta-analytic comparison of these two moderator subgroups supports Hypothesis 2, in that the difference between these two correlations (using statistical significance tests recommended by Kleinbaum et al., 1988; computed $Z = 4.78$) reaches statistical significance at $p < .0001$. Hence, the type of risk measure acts as a moderator of the CSP-risk relationship.

Furthermore, market risk measures are further subdivided into total market risk and systematic market risk (β) measures. Here, the results suggest that CSP tends to reduce the diversifiable total market risk (i.e., the

Table 2
Relationship Between Corporate Social Performance (CSP) and Firm Risk

<i>Relationship</i>	<i>k^a</i>	<i>N</i>	<i>Sample-size weighted mean observed r</i>	<i>Observed Variance</i>	<i>% of Variance Explained^b</i>	<i>Corrected r (mean ρ)</i>	<i>Variance of corrected r</i>	<i>File Drawer Analysis^c</i>
Relationship between CSP and firm risk (overall; <i>H1a</i>)	60	6,186	-.1487	.0476	23.58	-.2087	.0700	118
Temporal subdivisions								
CSP → subsequent risk (<i>H1b</i>)	7	1,172	-.2030	.0349	25.78	-.2849	.0498	21
Prior risk → CSP (<i>H5</i>)	14	2,308	-.1054	.0319	21.62	-.1480	.0482	16
Cross-sectional studies (<i>H6</i>)	39	2,706	-.1620	.0635	25.30	-.2273	.0913	87
Operationalizations								
1. CSP correlated with								
a. Accounting risk (<i>H2</i>)	20	3,350	-.0940	.0334	19.90	-.1319	.0515	18
b. Market risk (<i>H2</i>)	40	2,836	-.2132	.0568	29.70	-.2993	.0768	131
1. Total market risk	20	1,070	-.4064	.0282	96.16	-.5704	.0021	143
2. Systematic market risk (beta)	20	1,766	-.0965	.0377	31.93	-.1354	.0494	19
2. Firm risk correlated with								
a. CSP disclosures	2	213	-.0741	.0381	25.85	-.1041	.0543	1
b. CSP reputation ratings (<i>H3</i>)	35	2,816	-.2292	.0722	21.76	-.3217	.1088	125
c. Social audits, processes, and outcomes	19	2,465	-.0910	.0166	50.19	-.1277	.0159	16
d. CSR _i	4	692	-.0490	.0111	53.71	-.0688	.0099	NA
Corporate environmental performance (<i>H4</i>)	8	136	-.0168	.1552	40.27	-.0235	.1784	NA

a. Number of correlation coefficients meta-analyzed.

b. Percentage of observed variance explained by sampling error and measurement error in CSP.

c. Hunter & Schmidt's (1990) effect size file drawer analysis: number of missing studies needed to bring r_{obs} up to $-.05$.

general risk characteristics) relatively more ($r_{\text{obs}} = -.41$, $\rho = -.57$) than it reduces the nondiversifiable risk characteristics (between CSP and systematic risk, β : $r_{\text{obs}} = -.10$, $\rho = -.14$). This difference is again statistically significant at $p < .0001$. In addition, virtually all (96%) of the observed variance in the CSP total market risk correlation (from study to study) can be explained by the study artifacts of (a) sampling error and (b) measurement error (i.e., lack of reliability) in CSP. This large percentage of variance explained by study artifacts implies that the meta-analytic mean-corrected correlation represents an accurate estimate of parameter ρ and that no additional variables moderate the CSP-risk relationship in this subset.

CSP Subdivisions

The CSP measures are also subdivided into distinct measurement categories to examine Hypotheses 3 and 4. As Table 2 shows, CSP reputation ratings correlate most negatively with firm risk ($r_{\text{obs}} = -.23$, $\rho = -.32$), which is consistent with Hypothesis 3. The closest correlation among risk and measurement subgroups of CSP was between social audits, processes, and CSP outcomes and risk ($r_{\text{obs}} = -.09$ and $\rho = -.13$; entry 2c in Table 2). The statistical tests for difference between these two correlations reach statistical significance at $p < .0001$. However, the variance explained by the study artifacts is still below the 75% threshold, so further contingencies must be investigated for CSP reputation and risk. Social audit measures, CSP processes and outcomes ($\rho = -.13$), CSP disclosures and content analysis ($\rho = -.10$), and social value (CSR₁) measures ($\rho = -.07$) all show smaller true-score correlations with firm risk than CSP reputations. Moreover, in both the social audits and the values measures subgroups of CSP, the two study artifacts considered explain more than 50% of the observed cross-study variance in the correlation between CSP and firm risk.

In addition, corporate environmental performance shows a very small negative correlation with firm risk ($r_{\text{obs}} = -.02 = \rho$). The correlation coming closest to this one is between risk and values and principles of social responsibility (CSR₁; $r_{\text{obs}} = -.05$; $\rho = -.07$). This difference ($Z = .337$) is not statistically significant, nor is the difference between the correlation linking corporate environmental performance with risk ($r_{\text{obs}} = -.02 = \rho$) and the overall correlation ($r_{\text{obs}} = -.15$; $\rho = -.21$; $Z = 1.519$). Moreover, in a subsequent analysis, when the two extreme outliers (Pava & Krausz, 1995, in Table 1) are deleted from the meta-analytic set, the true-score correlation between environmental performance and firm risk becomes $-.21$, with all of the cross-study variance explained away by artifacts (not shown in Table 2). The decision to delete this outlier study, which reported suspiciously large (positive) correlations, was based on recommendations of

such statisticians as Tukey (1960, 1977), Huber (1980), and Hedges (1987). The data analysis excluding the outlier casts some doubt on the empirical support for Hypothesis 4, because the result may have been unduly influenced by one study.

Temporal Sequence Subdivisions

The meta-analytic data set was further subdivided to examine the temporal sequences consistent with the causal chains suggested by Hypotheses 5 (risk \rightarrow CSP) and 6 (CSP \leftrightarrow risk contemporaneously). This subdivision indicates that risk is also a negative temporal antecedent of CSP ($r_{\text{obs}} = -.11$; $\rho = -.15$) and that risk and CSP are also correlated when measured in the same time period ($r_{\text{obs}} = -.16$; $\rho = -.23$). The temporal subdivisions show that although the correlation is highest when CSP precedes risk ($r_{\text{obs}} = -.20$; $\rho = -.28$; Hypothesis 1b), the causality between the two constructs is likely to be reciprocal. Risk also appears to precede CSP, and this correlation is negative as well. Overall, the findings of the temporal subgroups lend support to Hypotheses 5 and 6 and the virtuous-cycle argument. It is important to note, though, that the negative correlation between prior CSP and subsequent risk is about twice as large as the correlation between prior risk and subsequent CSP.

For all analyses, a file drawer analysis was performed to check the meta-analytic data set for publication bias (Hunter & Schmidt, 1990). File drawer analysis computes the number of unlocated (i.e., "lost" or "missing") studies needed to cause a change in the empirical conclusions. File drawer analysis is a way of addressing the criticism that the studies available for any given meta-analysis are a biased sample of all available studies. For example, critical readers may argue that if the meta-analyst had greater access to some unpublished studies, the empirical conclusions would change dramatically. Hunter and Schmidt (1990) recommended an effect-size file drawer analysis, establishing a critical level (r_c) and computing the number of unlocated studies that would bring the absolute value of the meta-analytic, observed r down to that level (e.g., $|r_c| = .05$). The formula for the file drawer computation is $x = k(\bar{r}_k / \bar{r}_c - 1)$, where $\bar{r}_k = \frac{\sum r_k}{k}$

and r_k = the r reported in the primary study. In the case of our meta-analysis, it is unlikely that so many (unpublished) studies were overlooked (see Table 2, last column), given the multiple ways in which studies were located. As one exception, publication bias may be a problem for our conclusions about CSP disclosures.

In sum, not a single mean correlation between CSP and firm risk is positive. Although certain primary studies found positive correlations (see

Table 1), these positive correlations are most likely due to sampling error. Still, in most cases, sampling error and measurement error in CSP cannot explain the entire observed cross-study variance of correlations, so true contingencies, or moderator variables, are likely to exist. In the CSP and risk measurement subsets, the percentage of variance explained by study artifacts tends to be higher than in the entire meta-analytic set, indicating that the operationalization (or type) of each variable is in fact a moderator. Testing the statistical significance of the difference between various moderator subgroup correlations, we found empirical support for all hypotheses except Hypothesis 4.

DISCUSSION

This meta-analysis suggests that the higher a firm's corporate social performance the lower the financial risk incurred by the firm. That is, being a good corporate citizen tends to reduce firm risk. Investment in CSP appears to lower external market-based risk relatively more than internal accounting-based risk. The image of the firm has a greater impact on measures of market risk than measures of accounting risk. Although some of the relationships depicted in Figure 1 were not examined, the relatively greater true-score correlation between CSP and market risk suggests that CSP has both proximate and distal effects. The correlation of CSP with accounting risk may be lower because the risk-reducing (distal) effects of CSP are mediated by reputation, market risk, and further provision of new capital resources.

The CSP subset with the most substantial negative correlation with risk was social performance reputation. It might be argued that this negative correlation is due to halo effects between CSP and financial return measures of firm performance (Brown & Perry, 1994, 1995; Wood, 1995). This argument would be more plausible if return and risk measures of financial performance were highly positively or negatively correlated. However, the empirical evidence on the risk-return relationship is not definitive in either direction (McNamara & Bromiley, 1999). Therefore, we believe that this finding reiterates one of Waddock and Graves' (1997) conclusions that firms that even appear to be doing good things benefit from a virtuous cycle. It is possible that opportunistic managers use CSP as a smoke-and-mirrors public relations stunt to appease investors' concerns about future firm risk. This warrants further research.

Other aspects of CSP are related to firm risk to a much smaller extent. Social audits and managerial values (CSR_i) may have a smaller impact on risk because they are not as visible as CSP reputations. Indeed, Clarkson

(1995, p. 105) argued that “whether a corporation and its management are motivated by enlightened self-interest, common sense, or high standards of ethical behavior cannot be determined by the empirical methodologies available today.” Waddock and Smith (2000) regarded the writing of the final report for company managers and the audit steering committee as the 10th and final step in a social audit. This may be insufficient for a company whose CSP exceeds that of its competitors. Instead, the final step must be the wider circulation of the audit. Typically, external auditors or consultants conduct social audits. CSP disclosures, on the other hand, result from internal data collection. This may explain why CSP disclosures have a smaller impact on financial risk of a firm. The broader organizational community simply does not trust these internal data.

Practicing managers can derive some comfort from the conclusions of this study. Companies with high financial risk (e.g., those with high long-term debt or wide share-price fluctuations) are able to increase their investments in CSP without negative financial repercussions down the road. Markets will not punish them in the form of making their risk exposure even greater. Quite to the contrary, CSP reduces business risk. Moreover, low-risk companies in turn are the most likely to increase CSP investments. At the same time, managers of high-risk firms can no longer argue that social responsibility “simply costs too much, given the current financially threatening circumstances of the firm.” If the argument that CSP is only an expense and not a risk-reducing contribution to the bottom line were true, the need for government regulation would certainly be higher than the results of this meta-analysis warrant. Markets, left primarily to their own devices, can stimulate CSP and thus are self-regulatory systems from the perspective of the needs of society.

In the short run, the risk-reducing tendencies of CSP should probably be interpreted as a beneficial factor for firm survival. However, L. Donaldson (1999) argued that, over time, lower risk may also reduce corporate adaptation to external environments. Low exposure to market- and accounting-return fluctuations can insulate the firm from the therapeutic effects of financial performance crises. Thus, in the long run, low risk may be a mixed blessing because, on one hand, it makes financial performance more predictable and stable, but, on the other, it may also decrease the probability of organizational change (L. Donaldson, 1999). Alternatively, a firm may incur low risk because it constantly monitors its environment and makes continuous small incremental changes proactively.²

Whereas the meta-analysis has answered some questions from the literature, there is plenty of room for further study of mediating factors and a wider nomological net. McWilliams and Siegel (2001) introduced a number of variables that may not only affect the relationship between financial

performance level and CSP but also the relationship between performance variability and CSP. Many of the variables that they propose could be correlated with the provision of social responsibility attributes and with firm risk. For instance, if research and development (R&D) expenditures are high relative to sales, a firm may not only have higher CSP but also incur greater risk because many of these R&D expenditures may never pay off financially. Many other variables that, according to McWilliams and Siegel, affect the demand and supply of CSP may also affect risk and, thus, confound the relationships analyzed in our study.

Two possible weaknesses of our meta-analytic review must be acknowledged. First, a potential concern with our meta-analytic review may be the small number of aggregated correlation coefficients in a number of subanalyses. There is no rule of thumb that can be used to justify rejection of a meta-analysis if its overall or subgroup k is below a certain number (F. Schmidt, personal communication, February 2000). That is, even a meta-analysis of three studies is better than evidence from a single primary study because the total sample size goes up, and often, corrections for study artifacts can be made. Despite small k s in some of the subgroups, the majority of our statistical significance tests (testing for the equality of two correlations) reached significance.

Second, the assumption of statistical independence was violated in a minority of cases. However, many meta-analyses have reported multiple correlations from the same study for different measures. This lack of independence in the form of replicated measurement may only affect (i.e., inflate) the observed variance of correlations across studies. Violations of the assumption of independence do not have a systematic effect on the mean r_{obs} or ρ values in a meta-analysis (Hunter & Schmidt, 1990). In fact, Monte Carlo simulations have shown the mean effect sizes and estimates of variance are unaffected by nonindependence (Tracz, 1985). Because nonindependence is argued to have minor effects on statistical precision (Hedges, 1986), use of nonindependent data should be acknowledged, but not necessarily be avoided, in meta-analysis (Preiss & Allen, 1990).

CONCLUSION

In the 1980s, the assumption that social-responsibility screens reduced stock portfolio performance was widespread (Rudd, 1981). Now, evidence has accumulated suggesting that CSP screens may not adversely impact investment performance (Sauer, 1997). The present meta-analysis contributes to the growing literature that shows the positive effects of

stakeholder management (Harrison & Freeman, 1999), which may be manifested as high CSP. Another meta-analysis has shown that corporate social responsibility may enhance shareholder wealth (Frooman, 1997). If the return-inducing effects of CSP also enhanced financial risk, managers would face a strategic dilemma (risk-return trade-off). In this article, we showed that, in the data set covering the past two decades, risk is negatively correlated with CSP. In fact, among all risk measures, high CSP appears to be most highly negatively correlated with total market risk. Furthermore, the better a firm's CSP reputation, the lower is its risk. Thus, a firm that is socially responsible and responsive may be able to increase interpersonal trust between and among internal and external stakeholders, build social capital, lower transaction costs, and, therefore, ultimately reduce uncertainty about its financial performance.

APPENDIX

Reliability

Classical measurement theory is concerned with the correspondence between observed scores and true scores. Some of the reliability coefficients used in this study are in the tradition of classical measurement theory, such as coefficient alpha reliabilities. Sometimes it becomes necessary, however, to count not only variation due to item sampling but also day-to-day variation in scores as measurement error. In classical theory, one can accomplish this task by using an alternate-forms coefficient of reliability, with the different forms being administered on different days. Generalizability theory is less restrictive in its assumptions than classical theory (Cronbach, Gleser, Nanda, & Rajaratnam, 1972). Therefore, the present study occasionally estimates measurement error with the coefficient of generalizability, which reflects the degree to which observed scores allow for generalization about a firm's behavior in a defined universe of situations (Cronbach et al., 1972; Shavelson, Webb, & Rowley, 1989). According to psychometric theory, all coefficients of reliability used in the meta-analysis provide conservative estimates of, that is, a lower bound to, the reliability of the CSP measurement instrument.

NOTES

1. In contrast, the Natural Step is a truly exceptional organization that seeks to refute the still widespread assumption that good ecology and good economics are incompatible (Bradbury & Clair, 1999).

2. We are indebted to an anonymous reviewer for this suggestion.

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Marc Orlitzky (Ph.D., University of Iowa) is a lecturer at the Australian Graduate School of Management, which is jointly owned by The University of Sydney and The University of New South Wales, Sydney, Australia. His research has focused on corporate social performance, human resource management, and small-group communication. Since 1996, Marc has made 13 conference presentations and published in 12 research outlets, including Journal of Business Ethics, Research in Corporate Social Performance and Policy, Personnel Psychology, Trends in Organizational Behavior, Small Group Research, Academy of Management Review, Journal of Personal and Interpersonal Loss, and Journal of Career Planning and Employment. He can be reached via E-mail at marco@agsm.edu.au.

John D. Benjamin (Ph.D., Louisiana State University) is a professor of finance and real estate at the Kogod School of Business, American University, in Washington, D.C. His research has focused on corporate and individual activity in finance, real estate, and economics. He can be reached via E-mail at jbenj@american.edu.

Good Deeds and Misdeeds: A Mediated Model of the Effect of Corporate Social Performance on Organizational Attractiveness

REBECCA A. LUCE

Texas Christian University

ALISON E. BARBER

Michigan State University

AMY J. HILLMAN

Arizona State University

Previous research has suggested that corporate social performance is positively related to firms' attractiveness as employers. The authors propose and test an alternative model whereby job applicants' familiarity with employers mediates the relationship between corporate social performance and organizational attractiveness. Applicants' familiarity with firms may serve as a signal of firms' suitability as employers, with more familiar firms considered more attractive. Furthermore, a firm's overall level of corporate social activity (whether "good deeds" or "misdeeds") may contribute directly to firm familiarity and indirectly to attractiveness through familiarity. The authors' results support this model; firm familiarity completely mediates the relationship between corporate social performance and organizational attractiveness.

The nation's favorable economic climate has been a boon for job seekers, creating a labor market shortage in many areas of the country. Employers are naturally more competitive with each other for qualified employees during periods of tight labor supply and are eager to exploit advantages they may possess in attracting job applicants. An organization's record of

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corporate social performance may be one such source of advantage for a firm in recruiting new employees. Corporate social performance can be generally defined as the organization's responsiveness to the needs of its stakeholders (Wood, 1991). The fulfillment of social obligations to stakeholders, whether they be customers, shareholders, employees, or entire communities, is an organizational role that is receiving increasing attention on many fronts: scholarly journals (Clarkson, 1995; Jones, 1995; Swanson, 1995; Waddock & Graves, 1997; Wood, 1991), practitioner publications (Atkinson, Waterhouse, & Wells, 1997; Reich, 1998), as well as the popular press ("Good Works—and Great Profits," 1999; Meyerson, 1999).

Only one study to date, however, has directly examined the effect of firms' public records of corporate social responsibility on their ability to attract new employees. Turban and Greening (1997) found that firms with better records of corporate social performance were considered more attractive as potential employers by prospective job applicants. The results of Turban and Greening's study lends support to the appealing idea that organizations that expend resources attending to their social obligations are also considered better places to work by prospective employees.

Although Turban and Greening's (1997) study takes an important first step toward our understanding of the relationship between corporate social performance and the attraction of human capital, we propose that a different, indirect relationship exists between the corporate social performance of a firm and its attractiveness as an employer. We argue that job applicants' familiarity with a firm plays an essential role in understanding the relationship between corporate social performance and its attractiveness. According to our view, the overall level of corporate social performance activity of the firm, whether it consists of good deeds or misdeeds, contributes to the familiarity of a firm. Past research suggests that applicants rely on their overall image of a firm as a signal of its attractiveness as an employer (Behling, Labovitz & Gainer, 1968; Belt & Paolillo, 1982). If this is so, then the level of an applicant's familiarity with a firm is likely to be an important variable to include in our theoretical models in this area of research. We propose that firm familiarity mediates the relationship between the level of corporate social performance activity and organizational attractiveness.

Perhaps the relationships found in previous research regarding the determinants of organizational attractiveness are actually evidence of indirect effects. Because most of these studies did not include perceptual mediating variables that connect the determinants with organizational attractiveness, their results would not uncover the fact that the relationship between corporate social performance activity and organizational attractiveness is one that is mediated by a variable that is not specified in the

model. It may be that the “black box” responsible for the development of organizational images has not previously been opened. We expect to find that familiarity with the firms in our study is the missing link between independent variables and organizational attractiveness.

In the first section of this article, we will present the theoretical foundation for our mediation model of the relationship between corporate social performance and organizational attractiveness, including our rationale for including the construct of firm familiarity in our theoretical model. In the next section, we will describe the methodology used to conduct our study. We will then conclude with our results and discussion.

THEORETICAL BACKGROUND

A firm’s reputation or image is a valuable asset, often serving as the basis for decisions made by organizational stakeholders in their interactions with a firm (Fombrun & Shanley, 1990). An organization’s image is “the way the organization is perceived by individuals” (Tom, 1971, p. 576) and is developed based on the organization’s actions and the information that is disseminated regarding its character (Fombrun & Shanley, 1990; Spence, 1973). Image is a “loose structure of knowledge, belief, and feelings” about the firm (Tom, 1971, p. 576) that “may be induced from the way that the firm deals with its employees, clients or customers, and society” (Belt & Paolillo, 1982, pp. 107). As a result of exposure to organizational “messages,” individuals form an image of, among other things, what kind of employer the firm might be (Behling et al., 1968; Fombrun & Shanley, 1990; Highhouse, Zickar, Thorsteinson, Stierwalt, & Slaughter, 1999).

One manner in which employment images may form is directly, that is, through the acquisition of relevant data that pertains to an individual’s employment decision. For instance, a potential employee may request recruitment-related information from a firm to assess its suitability as a prospective employer or may ask a current employee to describe the company as a place to work. An organization’s employment image may also evolve indirectly, however, through signals sent by the firm that lead to a more generalized impression of the firm as a potential employer (Belt & Paolillo, 1982). Signals from a firm may originate from a variety of sources, such as a firm’s product quality, its strategies, marketing efforts, and so forth (Fombrun & Shanley, 1990; Spence, 1973). According to the view of some researchers, companies with more positive messages are likely to have a better image and, thus, may be in a stronger position competitively to attract desired job applicants (Belt & Paolillo, 1982; Stigler, 1962).

One factor that may play a part in the formulation of a firm's employment image is corporate social performance (Belt & Paolillo, 1982). Wood (1991) defined corporate social performance as a firm's socially responsible (or irresponsible) policies and activities that impinge on its relationships with its stakeholders. Stakeholders include such groups as employees, customers, suppliers, shareholders, public interest organizations, and governmental agencies (Freeman, 1984). Corporate social performance is evidenced by a wide range of organizational activities, including a firm's record on environmental issues, its history of philanthropic donations, and its inclusion of women and minorities in influential positions (Carroll, 1979; Sharfman, 1996; Wartick & Cochran, 1985; Wood, 1991). Although employees and job applicants compose a substantial stakeholder group for companies, the effect of firms' corporate social performance on current or prospective employees has received only scant research attention. The results reported thus far suggest that corporate social performance has a positive and direct influence on the development of employment-related images of organizations (Riordan, Gatewood, & Bill, 1997; Strand, Levine, & Montgomery, 1981; Turban & Greening, 1997).

The implication of these studies is that job seekers, armed with meaningful information about firms' corporate social responsibility, make rational and considered assessments about the firms' attractiveness on the basis of that information. We propose an alternative, more heuristic explanation: Corporate social performance (whether commendable or reprehensible) may increase the visibility of firms, causing applicants to feel a sense of familiarity with the firms that is, in and of itself, viewed as a positive job attribute. Under such a model, job seekers would not react to specific, identifiable elements of corporate social performance. Rather, corporate social performance activity would contribute to the familiarity that applicants have with the organization.

If our argument is correct, then there may be an important element of the employment image formulation process that is missing from these studies: the degree to which individuals are familiar with the firms they are considering for employment. A central purpose of our study is to determine the role firm familiarity plays in the relationship between corporate social performance and job applicants' perceptions of organizational attractiveness. Firm familiarity may be defined as the degree to which an individual is acquainted with a particular firm. An individual's familiarity with a firm may range from very low (the individual has never heard of the firm) to very high (the individual is well acquainted with the firm).

Potential employees, particularly those making their initial foray into the job market, often make employment-related assessments based on relatively little direct information (Behling et al., 1968; Reynolds, 1951).

Therefore, a key criterion in applicants' early decision making may be their familiarity with the firm being considered for employment. As these job applicants form an employment image of a firm, they are likely to rely on general signals that they have received regarding the firm in making an initial determination of company attractiveness (Behling et al., 1968; Belt & Paolillo, 1982). The signals underlying an individual's employment image of an organization are apt to have been sent from a variety of sources, depending on the nature of the exposure the individual has had to the firm or its messages (Fombrun & Shanley, 1990; Rynes & Miller, 1983; Tom, 1971). The exact sources of the information contributing to a generalized impression of the firm are likely to be lost over time, particularly if the signals have been received when the individual has not been focused on collecting data regarding the firm (Tom, 1971). Turban and Greening (1997) found that firms that were larger had more media exposure and spent more on advertising were less unfamiliar than other firms. To put it more generally, as individuals receive more signals regarding the firm, it becomes more familiar. Firm familiarity, in this sense, represents a general overall level of acquaintance with the firm, most likely without reference to specific, identifiable sources of information.

When applicants are new to the workforce and have limited objective information regarding potential employers, we believe that they will rely on a sense of general familiarity with a firm as an indicator of its suitability for employment. A high level of firm familiarity may thus send a positive signal regardless of the specific nature of the information that was the source of the image building in the first place. Firms that are well known may be perceived as having more desirable attributes, including suitability as employers, than firms that are relatively unknown (DiMaggio & Powell, 1983; Pfeffer & Salancik, 1978). As an example of the perceptual bias associated with the use of availability heuristics in decision making (Tversky & Kahneman, 1974), Bazerman (1998) reported that respondents were more likely to associate higher sales volumes with firms whose names were familiar to them than with much larger firms whose names were unlikely to be familiar. These findings suggest that higher levels of firm familiarity leads individuals to make more positive attributions regarding a firm than when their level of familiarity with the firm is lower.

We could not find any studies examining the link between corporate social performance and organizational attractiveness that explicitly included familiarity as part of the research model. We did find, however, two studies that provide some empirical evidence that familiarity is associated with more positive views of a firm (Gatewood, Gowan, & Lautenschlager, 1993; Turban & Greening, 1997). As part of their study investigating the relationship between organizational image and job choice

decisions, Gatewood et al. (1993) asked student respondents to assess their level of familiarity with a list of 13 companies. They found that respondents who had higher levels of familiarity with a firm also felt it had a more attractive corporate image. The value of the familiarity variables Gatewood et al. used in their analyses did not distinguish familiarity that was based on positive information about the company from familiarity developed from negative information. They concluded that "the overall corporate image ratings made by potential applicants . . . were most strongly related to the potential applicants' amount of exposure to the company" (p. 420).

Although Turban and Greening (1997) did not include familiarity as a variable in their study initially, they performed some post hoc analyses designed to assess the effects of familiarity on company images. To accomplish this, they constructed a variable called "firm unfamiliarity," which was based on the number of times respondents in their study had indicated they could not judge the attractiveness or reputation of a firm. Firm unfamiliarity was negatively associated with attractiveness as a potential employer, leading Turban and Greening to infer that, "in general, the more people have heard about a firm, the more positively the firm is regarded" (p. 666).

Based on previous research and extensions of the literature regarding company images, we believe that the degree to which individuals are familiar with a firm is likely to be a significant factor in whether or not they consider the company an attractive potential employer. The results of Gatewood et al. (1993) and Turban and Greening (1997) are suggestive of the importance of familiarity as a contributor to organizational attractiveness. To date, however, we have found no studies that have explicitly assessed the relationship between potential employees' levels of familiarity with a firm and attractiveness of its employment image. Gatewood et al. and Turban and Greening restricted the firms being rated in their studies to those with which respondents were (or were likely to be) familiar and, therefore, did not measure respondents' overall level of familiarity with the firms they were rating. During the actual employment process, however, firms with which candidates are less familiar are included in the pool of employers attempting to recruit applicants, as are those firms with which the applicant is more familiar. If familiarity serves as a signal for job applicants regarding organizational attractiveness as an employer, then the level of an applicant's familiarity with a firm is an important variable to include in our theoretical models in this area of research.

We contend that it is likely that corporate social performance and familiarity, in combination, influence ratings of employment image attractiveness. Turban and Greening's (1997) post hoc analyses indirectly

suggest that this may be the case. They found negative correlations between two dimensions of corporate social performance and firm unfamiliarity. We expect to find that, rather than corporate social performance having a direct and positive relationship with organizational attractiveness or image, as suggested by previous studies (Riordan et al., 1997; Strand et al., 1981; Turban & Greening, 1997), it may instead be primarily important in predicting attractiveness of firms to the degree it enhances firm familiarity. Suggestive of this relationship, Turban and Greening's post hoc analyses revealed negative correlations between two dimensions of corporate social performance and firm unfamiliarity. Our view implies that it is not only a company's "good" deeds that are relevant to employment image attractiveness but also its "misdeeds," because both types of corporate social performance are likely to add to an applicant's familiarity with the firm. In other words, corporate social performance may contribute to firm familiarity and, indirectly, organizational attractiveness, by calling attention to the firm through both its socially proactive and socially neglectful actions. Turban and Greening found no evidence that both positive and negative levels of corporate social performance were related to attractiveness ratings, but they only considered the effects of net corporate social performance ratings (negative ratings subtracted from positive ratings) not the effects of overall corporate social performance activity. We posit that corporate social performance contributes most to familiarity when activity is at a high level, for better or worse, and contributes least to familiarity when it is at a low level. In turn, we expect that high levels of firm familiarity lead to a more attractive employment image, whereas low levels of familiarity are related to reduced attractiveness.

We propose that the relationship between the level of corporate social performance activity and organizational attractiveness is mediated by the prospective employee's level of familiarity with the firm. If this hypothesis were supported, the effects of corporate social performance activity on employment image attractiveness would be primarily indirect, through firm familiarity. Thus, we propose the following hypothesis: The relationship between corporate social performance activity and employment image attractiveness will be mediated by firm familiarity.

METHOD

Sample

Because we were interested in answering the research question of how corporate social performance (CSP) and familiarity impact the attractive-

ness of organizations to job seekers, the level of analysis in this study is the organization. One hundred firms were randomly selected, using a random number table, from the Standard and Poors' (S&P) 500 for inclusion in the study. Firms in the S&P 500 represent a wide variety of industries and thus are likely to capture most of the types of positions being sought by job applicants. The S&P 500 is also the database of firms for which corporate social performance ratings were available, and data availability was of concern for this study.

Measures

Corporate Social Performance Activity

CSP is a multifaceted construct, which can be difficult to assess reliably (Carroll, 1979; Sharfman, 1996; Wartick & Cochran, 1985; Wood, 1991). We used the Kinder, Lydenberg, Domini & Co. (KLD) Company Profiles from 1996 for our data on CSP, which is the same source of data used by Turban and Greening (1997) and numerous other CSP researchers (Graves & Waddock, 1994; Sharfman, 1996; Waddock & Graves, 1997). The KLD rating scheme has been tested for construct validity by Sharfman (1996) and has been found to be one of the best measures of corporate social performance to date.

KLD collects information regarding firms on five primary corporate social performance dimensions: community relations, employee relations, diversity issues, product issues, and environment issues. They then rate a firm's performance on each dimension as "strengths," "concerns," or both. A firm can also be rated "neutral" on a dimension if there are neither strengths nor concerns. Ratings on strengths and concerns can be either "X" if the evaluators find information that suggests a "moderate" strength or concern or "XX" if the strength or concern is "strong." This suggests a rating scheme whereby a neutral rating is assigned a value of 0, moderate strengths or concerns a value of 1, and strong strengths or concerns a value of 2. Because we were interested in measuring the overall activity level associated with firms' corporate social performance, we summed these values by adding the score assigned to strengths to that assigned to concerns. Therefore, each dimension could have a rating ranging from 0 (*no strengths or concerns, or no activity*) to 4 (*strong strength and strong concern, or high activity*).¹

CSP, as an organization-level construct, is customarily measured on a global basis, recognizing that it is multidimensional (Carroll, 1979; Wartick & Cochran, 1985; Wood, 1991). The ratings on the five dimensions

assessed by KLD have been used to form an index of corporate social performance, with the five items aggregated to represent an overall measure of CSP (Graves & Waddock, 1994; Sharfman, 1996; Waddock & Graves, 1997). Therefore, we summed the scores of the five dimensions to obtain a composite CSP activity measure, the value of which could range from 0, if all five dimensions had no activity, to 20, if all five dimensions had maximum activity levels.

Firm Familiarity

Three hundred thirty-five undergraduate students who were enrolled in a capstone strategic management course in the business school of a large Midwestern university were asked to rate their familiarity with the 100 firms in the study in the spring of 1998. The average age of the respondents was 22, and 42% were female. Eighty-four percent were either actively seeking employment at the time the survey was administered or had recently accepted a position. Respondents were asked to answer the question "How familiar are you with this company?" on a 5-point scale ranging from *completely unfamiliar* to *very familiar*. Point values from 1 to 5 were assigned to their responses so that a higher score represented a greater degree of familiarity with the firm. The individual ratings of a firm were averaged across the 335 respondents to obtain an organization-level familiarity score. The order in which the firms were rated was randomized to avoid any order effects in students' ratings. Students participating in the study were given extra credit toward their grade in the course.

Organizational Attractiveness

The same group of students rated the attractiveness of each organization as a prospective employer by answering two questions: "How attractive is this company to you as an employer?" and "How willing would you be to pursue a job with this company?" Ratings were on a 5-point scale ranging from *very unattractive* (or *very unwilling*) to *very attractive* (or *very willing*). Point values from 1 to 5 were assigned to students' ratings on each question so that a higher score represented a higher level of attractiveness or willingness. The ratings for the two questions were summed and averaged to form the organizational attractiveness variable after principal components factor analysis demonstrated they formed one factor, with a reliability of .99. The individual organizational attractiveness ratings of a firm were then averaged to obtain an organization-level attractiveness score.

Control Variables

We included control variables for firm size (measured as total assets) and profitability (measured as return on assets [ROA]) due to the likelihood that larger and more profitable firms would be more familiar and viewed as more attractive. Given the nature of our study, we added another size-related control variable likely to impact respondents' assessments of both firm familiarity and organizational attractiveness as a potential employer: the number of people the firm employs. Inclusion of this control variable is supported by recruitment research on organizational attractiveness (Barber, Wesson, Roberson, & Taylor, 1999; Greenhaus, Sugalski, & Crispin, 1978; Turban & Keon, 1993).

ANALYSES AND RESULTS

Table 1 provides the descriptive statistics and correlations for all the variables in our study. Total assets and number of employees are not significantly correlated, suggesting they represent separate measures of firm size from the standpoint of our student raters, and supporting the inclusion of both as control variables in the study. Firm familiarity and organizational attractiveness as an employer are highly correlated ($r = .86, p \leq .01$), as our theoretical discussion predicted. Due to the high correlation between firm familiarity and organizational attractiveness, the variance inflation factor (VIF) for firm familiarity was checked for potential multicollinearity for the analysis performed, including both firm familiarity and organizational attractiveness. The VIF for firm familiarity was 1.54, well below the level of 10 considered the threshold for multicollinearity (Neter, Wasserman, & Kutner, 1990).

Hierarchical regression was used to test our mediation hypothesis regarding the role of familiarity in influencing the relationship between corporate social performance and attractiveness as an employer. Our hypothesis proposed that the effect of familiarity is one of mediating the relationship between CSP and attractiveness. In other words, the CSP of a firm leads to its being more familiar, which, in turn, leads to its being more attractive as an employer. We expected, therefore, that the relationship of CSP and attractiveness would dissipate with the introduction of familiarity in the mediation model.

The four-part test recommended by Baron and Kenny (1986) was used to assess the mediating effect of familiarity. See Table 2 for these results. (For each of the regression analyses, the three control variables of total assets, ROA, and number of employees were added in an initial step.)

Table 1
Descriptive Statistics and Correlations Between Variables for Sample (N = 100)

Variable	M	SD	1	2	3	4	5	6
1. Corporate social performance activity	3.01	2.30	—					
2. Firm familiarity	2.28	.77	.45**	—				
3. Organizational attractiveness	3.09	.30	.36**	.86**	—			
4. Total assets ^a	17,077	31,900	.35**	.27**	.28**	—		
5. Return on assets	7.57	9.65	.12	.16	.16	-.13	—	
6. Number of employees	35,049	57,054	.31**	.41**	.39**	.13	.03	—

a. In millions of dollars.

** $p \leq .01$.

First, there must be a significant relationship between the independent variable (CSP activity) and the mediator (firm familiarity) when the mediator is regressed on the independent variable. In our analysis, CSP activity is positively and significantly related to firm familiarity (.33, $p \leq .01$). Second, the independent variable (CSP activity) must be shown to significantly affect the dependent variable (organizational attractiveness) when the dependent variable is regressed on the independent variable. We found that CSP activity is positively and significantly related to organizational attractiveness (.22, $p \leq .05$). Third, when the dependent variable (organizational attractiveness) is simultaneously regressed on both the independent variable (CSP activity) and the mediator (firm familiarity), the mediator must affect the dependent variable. Our results show that familiarity is positively and significantly related to attractiveness (.82, $p \leq .01$). Last, the effect of the independent variable on the dependent variable must be less when the dependent variable is regressed on both the independent variable and the mediator than when the dependent variable is regressed on the independent variable alone. For this last analysis, the relationship between CSP activity and organizational attractiveness drops from .22 ($p \leq .05$) to $-.05$ (*ns*), indicating complete mediation (Baron & Kenny, 1986). This finding supports our hypothesis regarding the mediating effect of familiarity on the relationship between corporate social performance activity and organizational attractiveness as an employer.

In an effort to further understand the relationships between CSP activity, familiarity, and organizational attractiveness, we performed a post hoc analysis substituting the five dimensions of CSP used by Turban & Greening (1997) for the overall CSP activity variable. The ratings of corporate social performance by KLD on these five dimensions were accumu-

Table 2
Results of Regression Analyses With Familiarity Mediating the Relationship Between Corporate Social Performance (CSP) Activity and Organizational Attractiveness (N = 100)

<i>Predictors</i>	<i>Step 1</i>	<i>Step 2</i>	<i>Step 3</i>	<i>Supports Mediation</i>
Control variables				
Total assets	.28**	.32**	.32**	
Return on assets	.13	.12	.12	
Number of employees	.38**	.37**	.37**	
R^2	.26**	.27**	.27**	
Step 1				
Familiarity regressed on CSP activity	.33*			Yes
Step 2				
Attractiveness regressed on CSP activity		.22*		Yes
Step 3				
Attractiveness regressed on familiarity			.83**	Yes
Attractiveness regressed on CSP activity			-.05	Yes
ΔR^2	.09**	.04*	.49	
Total R^2	.35	.31	.76	

Note: The level of analysis is the organization. Standardized beta weights are reported.
 * $p < .05$. ** $p < .01$.

lated to arrive at our CSP activity measure. When CSP is disaggregated into dimensions for research purposes, these are the five most frequently used (Graves & Waddock, 1994; Turban & Greening, 1997; Waddock & Graves, 1997). The five areas rated are community relations, treatment of women and minorities, product quality, employee relations, and treatment of the environment. As with the overall measure of CSP used to test our hypothesis, the individual dimension variables were created by adding together the ratings for strength and for concerns to obtain an absolute "activity" measure.

Table 3 reports the results of our analyses using the individual dimension variables. The tests for mediation were performed initially with familiarity regressed on all five dimensions. Two dimensions had a statistically significant relationship with familiarity: community relations activity (.30, $p < .01$) and treatment of women and minorities activity (.35, $p < .01$). Because only these two dimensions met the mediation test in the first step, the other three dimensions were not included in Step 2, where organizational attractiveness was regressed on community relations and treatment of women and minorities. Both CSP dimensions were again

Table 3
*Results of Regression Analyses With Familiarity Mediating the Relationship
 Between Five Dimensions of Corporate Social Performance (CSP) Activity
 and Organizational Attractiveness (N = 100)*

Predictors	Step 1	Step 2	Step 3	Supports Mediation
Control variables				
Total assets	.28**	.32**	.32**	
Return on assets	.13	.12	.12	
Number of employees	.38**	.37**	.37**	
R ²	.26**	.27**	.27**	
Step 1				
Familiarity regressed on				
Community relations activity	.30**			Yes
Treatment of women/minorities activity	.35**			Yes
Product quality activity	-.01			No
Employee relations activity	.04			No
Environment activity	.06			No
Step 2				
Attractiveness regressed on				
Community relations activity		.27**		Yes
Treatment of women/minorities activity		.33**		Yes
Step 3				
Attractiveness regressed on				
Familiarity			.79**	Yes
Community relations activity			.02	Yes
Treatment of women/minorities activity			.04	Yes
ΔR ²	.18**	.13**	.48**	
Total R ²	.44**	.41**	.76**	

Note: The level of analysis is the organization. Standardized beta weights are reported.
 * $p < .05$. ** $p < .01$.

significant (.27, $p < .01$ for community relations and .33, $p < .01$ for treatment of women and minorities).

The third step of the mediation test regressed organizational attractiveness on familiarity, community relations, and treatment of women and minorities all at once. As with the overall CSP activity variable analyses, we found complete mediation with a significant relationship between familiarity and attractiveness (.76, $p < .01$) and the relationships of community relations and treatment of women and minorities with organizational attractiveness no longer statistically significant.

DISCUSSION

In this study, we introduce the idea that familiarity is a key aspect of the determination of employer attractiveness by explicitly including it in our theoretical model. We find that as familiarity with a firm increases so does its attractiveness as an employer. Scholarly examination of the role of familiarity in the attraction process perhaps suffers from being considered too obvious. There is an intuitive logic in dismissing familiarity as an important variable in empirical studies by having respondents rate only those firms with which they are familiar. This approach misses the point, however, that job applicants are making employment decisions, in part, on their degree of familiarity with a firm. For job candidates to formulate an image of a company and to use that image as a basis for assessing its attractiveness as an employer, they must have previously acquired information regarding the firm. The image will be more complete and the firm more familiar given more exposure to the firm. We found, as previous research had hinted, that the effect of prospective employees' familiarity with a firm is a strong predictor of the firm's attractiveness.

Although our theoretical discussion predicted that firm familiarity and organizational attractiveness as an employer would be highly related, their high correlation could be interpreted to mean that the two variables are isomorphic. We would like to offer some evidence that this is not the case. Turban and Greening (1997) found that larger firms were less unfamiliar to respondents in their study. Therefore, we reran our analyses using two measures of firm size (number of employees and total assets) as proxies for our perceptual familiarity variable. We found a partial mediation of firm familiarity (size) of the relationship between CSP activity and organizational attractiveness. Although our findings using firm size variables were not as strong as when we used our more direct measure of familiarity, they do support the mediating relationship we found in our study.

The positive relationship between CSP and organizational attractiveness found in Turban and Greening's (1997) study is appealing and reinforces our desire to see firms that invest in stakeholder satisfaction reap benefits from their responsiveness. However, our results suggest that Turban and Greening's findings tell only a part of the story. Our findings suggest that corporate social performance may be important to attractiveness as an employer only indirectly, through its contribution to familiarity with the firm. As applicants acquire information regarding firms' CSP, they are becoming more familiar with the firms at the same time.

By restricting their evaluation of the relationship between CSP and organizational attractiveness to only those firms that were already familiar to respondents and by using a net measure of CSP, rather than assessing

overall activity, Turban and Greening (1997) may have omitted some important considerations. (Similarly, Gatewood et al.'s, 1993, findings regarding familiarity were quite limited in that only those respondents who were familiar with a firm rated the attractiveness of its corporate image.) Whereas Turban and Greening's study asked "Given that you are familiar with the company, are more positive corporate social performance ratings related to stronger organizational attractiveness ratings?" our study asked "What is the effect of firm familiarity in assessing the relationship between corporate social performance activity and organizational attractiveness?" We believe that the latter question is broader and encompasses more of the relevant variables in examining the relationship between CSP and organizational attractiveness. As a result of investigating this broader question, our study's findings suggest it is the publicity value of CSP that is its most relevant attribute in assessing employer attractiveness during the employment process. Socially oriented activity appears to be "beneficial" from a recruitment perspective whether it is positively or negatively directed if it succeeds in drawing attention to the firm and increasing its familiarity. There may, in fact, be no such thing as bad publicity in this context.

Of course, engaging in responsible activities that benefit stakeholders is not motivated primarily by a firm's desire to attract more job applicants. It is our belief, and our hope, that the rewards of being a socially responsible corporate citizen are garnered as a result of motivations that are more civic minded (or legally mandated). We certainly do not mean to suggest that firms engage in socially irresponsible activities to attract employees, nor that they interpret our findings as legitimating such activities. We felt it was important, however, given the previous research examining tangential implications of firms' CSP, to determine more precisely how CSP may be influencing stakeholders' decisions regarding firms with which they come into contact.

Our research design examined pre-employment beliefs of prospective employees who were about to embark on their careers as they graduated from college. In this sense, the generalizability of our results is limited to this applicant profile. It is possible that more experienced members of the workforce would respond differently to the balance of CSP and familiarity in assessing organizational attractiveness. Job candidates who are experienced in their careers may have access to additional sources of information regarding firms with which they are considering employment compared to applicants newly entering the workforce. For instance, through their affiliations with trade associations or their relationships with peers in other firms, more experienced job candidates may have access to unreported information that could lead them to different attractiveness assess-

ments than those of our sample. These more experienced job seekers may respond more to objective data they acquire about firms in making their application decisions, and they may weigh familiarity with a company less heavily in their decision making. Instead, experienced employees may formulate specific criteria about which they systematically collect information to assist them in making job-change decisions. For this type of candidate, CSP may be relevant (or irrelevant) on its own merits, whether or not it contributes to general familiarity with the firm.

Our study used an aggregate measure of CSP, in accordance with numerous other researchers investigating this construct. Turban and Greening (1997) chose instead to use five individual dimensions of CSP gathered by the same source as we used in our study. It could be argued that our results are inconsistent with theirs due to the dissimilarity in measures. Therefore, we performed some additional analyses designed to determine if this were the case. As with our aggregate variable, we constructed five individual variables based on overall activity within each dimension. Following the steps of our mediation model, two of the five dimensions, community relations activity and treatment of women and minorities activity, were significantly related to firm familiarity. These same two dimensions were also significantly related to organizational attractiveness. When all variables were included in the regression equation, the relationship of the CSP dimensions and organizational attractiveness disappeared, supporting the mediation effect of firm familiarity. These results are consistent with our findings using the aggregate CSP variable.

We can offer a couple of interpretations of the results of our analyses with the individual dimensions of CSP. It may be that firms' activities in the realms of community relations (which includes consideration of firms' involvement in philanthropy and job training, as well as poor relations with the community) and treatment of women and minorities (which includes such issues as representation of women and minorities in positions of authority and the firm's affirmative action record) received more publicity than the other three CSP dimensions of employee relations, product quality, and the environment. This would likely lead to their having a greater impact on applicants' familiarity than the other dimensions. Alternatively, it may be that the entry-level job applicant who participated in our study responded more to firms' records in these two areas of CSP. In other words, firms' giving back to the community and their records regarding promotion of women and minorities were more important to this population than were the other three dimensions. Both interpretations are consistent with the results we obtained, and further research is needed to draw any firm conclusions.

This study has taken a first step toward highlighting the important role of firm familiarity in the applicant-attraction process. Given firm familiarity's significant effects in job applicants' assessments of organizational attractiveness, these results are of both theoretical and practical importance in the field of recruitment. Our study demonstrates that firm familiarity is an important signal in the job candidate's decision-making process regarding employment, and it should be included in recruitment researchers' models when examining organizational attractiveness. We can also tell business organizations that a lack of applicant familiarity with the firm may inhibit responses to recruitment efforts and thereby reduce the pool of applicants upon which the firm is able to draw. Far from validating that "familiarity breeds contempt," our findings suggest that familiarity is a critical ingredient when it comes to recruitment success.

NOTE

1. Other studies using the Kinder, Lydenberg, Domini & Company ratings to assess corporate social performance have subtracted the "concern" ratings from the "strength" ratings for each dimension to obtain a net (positive) measure of corporate social performance (see Turban & Greening, 1997; Waddock & Graves, 1997). This method of measuring CSP activity is not appropriate for our study, because it offsets a firm's negative CSP activity against its positive CSP activity and, therefore, fails to capture the overall level of activity that is the essence of our CSP activity construct.

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Rebecca A. Luce is an assistant professor of management in the M. J. Neeley School of Business at Texas Christian University. She received her Ph.D. in strategic management from Michigan State University. Her research interests include the strategic implications of corporate social performance and the influences of top management in high growth firms. She can be reached via E-mail at r.luce@tcu.edu.

Alison E. Barber is senior associate dean and associate professor of management at The Eli Broad College of Business, Michigan State University. Her research focuses on employee recruitment and job search. Professor Barber earned her doctoral degree at the University of Wisconsin in Madison and has been on the Michigan State faculty since 1990. She can be reached via E-mail at aebarber@bus.msu.edu.

Amy J. Hillman received her Ph.D. in strategic management and business and public policy from Texas A&M University. She is currently an associate professor in the Department of Management at Arizona State University. Her research interests include corporate political strategies, boards of directors, and the relationship between stakeholder and financial performance. She can be reached via E-mail at amy.hillman@asu.edu.

The Impact of Accidents on Firms' Reputation for Social Performance

STELIOS C. ZYGLIDOPOULOS

Rochester Institute of Technology

Drawing on the literatures of industrial crises, corporate reputation, and stakeholder theory, this article is an empirical investigation into the impact that accident characteristics have on the corporate reputation for social performance of the firms involved. The main findings are the following: First, environmental damage does have an impact on the reputational scores for social performance, whereas damage to human life, surprisingly, does not. Second, the complexity of an accident plays a role in the reevaluation of the social performance reputational scores. Third, industry executives and analysts differ in their reputational reevaluations of accidents with respect to the complexity of the event. The article concludes with a discussion of the implications of these findings.

In this article, the results from an empirical investigation into the reputational impact of accidents are presented. Industrial accidents such as airplane crashes, railroad accidents, and chemical or oil spills can cause significant damage to the reputation for social performance of a business firm. However, despite the in-depth investigation of a few major accidents that received a great deal of media attention, such as the 1989 *Exxon Valdez* oil spill and the 1984 Union Carbide Bhopal chemical leak, a more systematic and general study of the reputational impact of industrial accidents is lacking. This article, drawing on the literatures of industrial crises, corporate reputation, and stakeholder theory, performs an exploratory, but systematic, investigation on the impact that accident characteristics, such as accident severity, accident complexity, company responsibility, and media attention, have on the reputation of a business firm for social performance.

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Understanding the impact that different kinds of accidents have on the reputation for social performance of a business firm is very important, for three reasons. First, corporate reputation can be one of the most important intangible resources of a business firm, because it can be a major source of competitive advantage (Barney, 1991; Dierickx & Cool, 1989; Fombrun, 1996; Hall, 1992, 1993; McMillan & Maheshkumar, 1997; Roberts & Dowling, 1997). For example, a good corporate reputation can act as a warranty to customers in ambiguous situations (Fombrun, 1996), can allow managers to charge higher prices, can attract talented people, and can be applied simultaneously in multiple uses (Itami, 1987). Second, corporate reputation can contribute to the sustainability of a firm's competitive advantage because it usually takes a long period of time for a business firm to develop a solid reputation (Hall, 1992, 1993; Itami, 1987), and, therefore, a solid reputation cannot be easily imitated by potential or actual competitors.¹ Third, corporate reputation for social performance is an important aspect of the overall reputation of a firm (Brown, 1997). Moreover, one could even argue that its importance could only increase, given that the attitudes toward the role of business in society is changing and business firms are expected to assume a broader range of responsibilities within society by contributing to the quality of life in more ways than just supplying goods and services (Ackerman, 1975).

However, despite the long time that it takes for firms to build their reputations, a number of dramatic events, such as accidents, scandals, and product safety incidents, can cause significant, and sudden, damages to a firm's reputation, and particularly to its reputation for social performance. This article focuses on the investigation of the impact of accidents on the corporate reputation for social performance and proceeds as follows: First, the major concepts of the article, corporate reputation for social performance and accidents, are discussed. Then, drawing on the literatures of industrial crises, corporate reputation, and stakeholder theory, the possible links between accidents and corporate reputation for social performance are developed, and a number of hypotheses are presented. Third, the methodology of the study is described. Next, the main findings of this study are presented. The article concludes with a discussion of the contributions, implications, and limitations of this study.

MAJOR CONCEPTS

In this section, the main constructs of the article—corporate reputation, corporate reputation for social performance, and accidents—are described and discussed so that drawing on these constructs can facilitate

the development of testable hypotheses relating accident characteristics and changes in corporate reputation, which is done in the sections that follow.

Corporate Reputation

Fombrun (1996, p. 37) defined corporate reputation as “the overall estimation in which a particular company is held by its various constituents.” Building from this definition and drawing on the works of Hall (1992, 1993) and Zyglidopoulos and Phillips (1998b, 1999), for the purposes of this article, corporate reputation is defined as the set of knowledge and emotions held by various stakeholder groups concerning aspects of a firm and its activities. From this notion of corporate reputation, two aspects in need of further clarification and discussion seem to follow. These aspects are multidimensionality and stakeholder specificity. And, they can be visualized with the help of an $n \times m$ matrix, where one dimension is made up of the n stakeholder groups with an interest in the firm, and the other dimension is composed of the m firm aspects of interest to stakeholders (Zyglidopoulos & Phillips, 1998b).

Multidimensionality refers to the fact that a business firm could be known as a good or bad performer on a number of issues. For example, a firm could have a reputation for being innovative, for being a quality producer, for being a good (or bad) place to work in, for being socially responsible, and so on. In all of these cases, one could say that a firm has a good (or bad) reputation, but, in reality, one would be referring to different things. Over the years, a number of scholars have examined and used different aspects of corporate reputation in their work. For example, Brown (1997) and McGuire, Sundgren, and Schneeweiss (1988) investigated the “social responsibility” aspect of corporate reputation, whereas Deephouse (1997) investigated the financial aspect of a firm’s reputation, and Fombrun (1996) identified at least three aspects of corporate reputation: trustworthiness, reliability, and credibility. In addition, the America’s Most Admired Companies (AMAC) surveys, conducted yearly since 1984 by *Fortune* magazine, try to capture this multidimensionality of corporate reputation by surveying over 8,000 executives and industry analysts who are asked to rank the top 10 companies in their industry along eight dimensions. These dimensions are (a) quality of management; (b) quality of products or services; (c) innovativeness; (d) ability to attract, develop, and keep talented people; (e) long-term investment value; (f) financial soundness; (g) use of corporate assets; and (h) community and environmental responsibility. From the possible dimensions of corporate reputation, this article focuses on the aspect of corporate reputation for social performance, defined later in this section.

Stakeholder specificity refers to the fact that various stakeholders could have different notions regarding the reputation of a business firm. There are at least three reasons why one would expect this to be so. First, given the diversity of all the stakeholder groups, each group will be interested in different aspects and activities of a firm (Fombrun, 1996). Therefore, each group's notion of reputation would tend to include different firm aspects, or reputational dimensions. Second, this diversity of perspectives would tend to increase because of the halo effect. People tend to construct overall images by generalizing from attributes they are familiar with to attributes they know nothing or very little about (Dowling, 1988; Reynolds, 1965). In addition, because the various firm stakeholders will be extrapolating from different corporate attributes with which they are familiar, their notions of reputation will tend to diverge even more. Third, the existence of cognitive filters adds to the potential stakeholder specificity of corporate reputation. According to Fiol and Kooor-Misra (1997), "filtering occurs through the use of cognitive categories that all of us apply to situations and events around us all the time to determine what is 'right' or 'wrong,' 'expensive' or 'cheap,' 'young' or 'old,' and so on" (p. 149). It is to be expected that stakeholders would use similar societal, organizational, and personal filters (Fiol & Kooor-Misra, 1997) to view a particular business firm. Using these filters, organizational stakeholders who are constantly bombarded by multiple images about a given business firm selectively retain those elements that will form their notion of the firm's corporate reputation (Rindova, 1997). In other words, because they use different filters, different stakeholder groups should be expected to exhibit different biases, not only in the information they review but also in the way they process this information.

In this article, the issue of stakeholder specificity is, to a limited extent, investigated by comparing the impact that the same set of accidents has on the reputational reevaluations of two firm constituents (industry analysts and executives) that could be seen as indicators of the reputations held by different stakeholder groups. The underlying idea is that, if reputation is stakeholder specific, then the same set of events, accidents in this instance, would impact in different ways the reevaluations of different stakeholders.

Corporate Reputation for Social Performance

Drawing on what was said above about the multidimensionality of corporate reputation, a firm's reputation for social performance could be seen as one of the many possible dimensions of a firm's reputation. Wood (1991) said that "corporate social performance (CSP) can be defined as a business organization's configuration of principles of social responsibility,

processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships" (p. 691). Accordingly, a firm's reputation for social performance can be defined as the knowledge and emotions that various stakeholder groups have concerning the social performance of the particular business firm.

Accidents

Drawing on work done in the study of industrial crises by Marcus and Goodman (1991), Perrow (1984), Shrivastava (1987), and Shrivastava, Mitroff, Miller, and Migliani (1988), accidents can be defined as discrete one-time undesirable or unfortunate events that happen unexpectedly in the life of a corporation and cause damage to any number or kind of stakeholders.² Examples of accidents that occurred in the life of business firms, and that received a great deal of media and research attention, are the 1984 Bhopal chemical leak, the 1979 Three Mile Island radiation leak, and the 1989 *Exxon Valdez* oil spill. In addition, whereas accidents can be quite diverse and to a certain extent unique events, they do share a number of common characteristics (Marcus & Goodman, 1991; Shrivastava et al., 1988). These characteristics can be linked to reputational changes and form the basis for a number of hypotheses, which after empirical verification can serve as the nucleus of a theory dealing with the reputational impact of accidents. The common accident characteristics, investigated in this article, are (a) accident severity, (b) media attention, (c) company responsibility, and (d) complexity (Marcus & Goodman, 1991; Perrow, 1984; Shrivastava, 1987).

Accident severity refers to the extent of the "damage" caused by a particular accident. At least two kinds of damage can be identified with any accident: damage to human life and environmental damage. Damage to human life refers to people who were injured or killed because of a particular accident, whereas environmental damage refers to the harm done to various aspects of the environment, such as wildlife, natural resources, and human and animal ecosystems. Thus, because two kinds of damage can be identified, accident severity would also comprise two distinct aspects, according to the extent of damage that a particular accident caused to human life and the environment. The potential that accidents have to cause damage to human life and the environment can be vividly illustrated by reference to the 1984 Bhopal chemical leak and the 1989 *Exxon Valdez* oil spill. In the Bhopal case, over 2,500 people died, and over 200,000 were injured (Browning, 1993; Morehouse & Subramanyam, 1986; Shrivastava et al., 1988). In the Exxon case, over 2,500 miles of beaches were blackened

with 11 million gallons of oil; 36,000 birds, including at least 100 bald eagles, were killed; and a great number of other species of wildlife suffered similar consequences (Galen & Cahan, 1989, 1990). Of course, a question of importance here is how long does the reputation of a firm suffer because of an accident? And, would it be reasonable to expect that the time length would depend on the severity of the event?

Media attention refers to the amount of publicity that a particular accident receives. This publicity could take the form of newspaper articles, magazine articles, or television and radio broadcasts. In a world characterized by what Kiely (1983, p. xi) called “the instant and worldwide photographic reporting of calamity,” some accidents can receive such an extensive amount of media coverage that they become landmarks in the history of a particular industry or sector. This is especially the case with accidents that are considered to be more “news worthy,” because they provide the permanently starved news media with graphic photographs that can improve their ratings.

Company responsibility refers to the responsibility that a particular stakeholder group attributes to the company involved for a given accident. Depending on the nature of the event and the bias of the particular stakeholder group, varying degrees of blame can be attributed to a company for an accident. Company responsibility or blame can be seen as inversely related to plausible deniability: the extent to which the company can plausibly deny responsibility for the accident and disassociate itself from the causes of the accident (Fombrun & Shanley, 1990; Marcus & Goodman, 1991).

Complexity refers to the extent to which the events that led to an accident are easily understood. For some accidents, figuring out what exactly happened is relatively easy and obvious, whereas for others, it is next to impossible. Perrow (1984) referred to accidents of high complexity as “system accidents,” where the accident is the result of the interaction of multiple, quite improbable failures in a complexly interactive and tightly coupled system. In such system accidents, a number of failures interact in nonlinear and unpredictable ways, and, given tight coupling, the system does not have the time or the resources to recuperate.³ Therefore, in the case of system accidents, causes cannot be easily understood, and blame cannot be easily traced to a person within the business firm, or even to the firm itself.

In the following section, the above accident characteristics are linked to a firm’s reputation for social performance by drawing on the literatures of crisis management, stakeholder theory, and corporate reputation.

ACCIDENTS AND CHANGES IN REPUTATION FOR SOCIAL PERFORMANCE

A major premise on which this work is based is that accidents can damage the reputation of a business firm and, particularly, the firm's reputation for social performance. There are a number of reasons why this should be so. First, stakeholders who are the evaluators of a business firm's reputation react emotionally to accidents in which business firms are involved and for which they could conceivably be blamed. This emotional reaction of stakeholders can be clearly seen in cases such as the 1984 Union Carbide Bhopal accident. Due to its high degree of human suffering, the Union Carbide Bhopal accident caused a great deal of emotional reaction all over the world. Of course, the Bhopal accident was one of the worst accidents that has ever taken place, but it vividly illustrates the potential of accidents to scar and injure, possibly permanently, a business firm's reputation.

Second, in addition to their potential emotional reactions, stakeholders also evaluate an accident as an event that provides them with information concerning a particular business firm and their stakes in it. Quite often, accidents reveal that some business firms are not as dependable as they appear to be. In other words, accidents can bring to the public's attention an unflattering side of the firm, a side that hitherto may have been successfully kept secret. Third, accidents, depending on their severity, usually trigger investigations into their causes. These investigations put under intense public scrutiny large parts of a business firm's everyday operations and could bring into the light of publicity any number of "irregularities." Moreover, although such irregularities might not be dangerous or harmful in the least, and might even be standard operating procedures for a given industry, these irregularities, when seen from a postaccident point of view, can be quite damaging for the reputation of a firm (Perrow, 1984; Vaughan, 1990).

Accidents are, of course, unique events. Therefore, one would expect that the impact of a particular accident to the reputation of the firm involved is also unique. However, accidents tend to have a number of common characteristics, a few of which have been identified and briefly discussed in the previous section. In addition, one would also expect that these characteristics influence the reputational impact of accidents, across accidents. Thus, in the following paragraphs, the influence that the accident characteristics of severity, media attention, company responsibility, and complexity can have on the social performance reputation of the corporation involved is discussed, and a number of testable hypotheses are set forth.

Accident severity should be expected to play a crucial role in the reputational impact of an accident. The greater the severity of an accident, the greater its potential for causing damage to human life or the environment and, consequently, the greater the potential emotional response it might elicit in stakeholders. In addition, the greater the severity of an accident, the greater the probability that the victims⁴ of the accident will have a high degree of legitimacy and urgency behind their claims (Zyglidopoulos & Phillips, 1998b). These victims, having legitimate and urgent demands, are able to obtain the assistance and advocacy of more powerful stakeholder groups if they themselves do not have the power to fight for their claims (Mitchell, Agle, & Wood, 1997). Such potential developments would not only cause a greater stir, followed by greater negative publicity, but would also cause a greater disturbance in the network of stakeholder interests in which a business firm operates. Moreover, both these outcomes could have a negative impact on the reputation of the firm. Finally, severe accidents are more likely to call for an in-depth investigation into the company's operations. Quite often, such investigations, as mentioned above, can reveal more embarrassing facts that cause further reputational damage to the firm.

The preceding discussion leads to two hypotheses:

Hypothesis 1A: The greater the severity of an accident with respect to the damage it caused to human life, the greater the negative impact on a company's reputation for social performance will be.

Hypothesis 1B: The greater the severity of an accident with respect to the environmental damage it caused, the greater the negative impact on a company's reputation for social performance will be.

A second accident characteristic with the potential for having an influence on the reputational impact of an accident is the degree of media attention an accident receives. The relationship between media attention and corporate reputation has been examined by authors such as Weinberger and Romeo (1989), Fombrun and Shanley (1990), and Wartick (1992). Among these authors, Weinberger and Romeo found that negative media attention has a negative impact on corporate reputation, whereas Fombrun and Shanley found that any kind of increase in media attention (negative, positive, mixed, or neutral) has a negative impact on corporate reputation. However, this last finding was not supported by further research. Wartick found no statistically significant association between changes in corporate reputation and changes in the amount of media attention. However, Wartick found that the tone of media attention was "a key factor associated with both the direction of the change in corporate reputation and the total movement of the change" (p. 43).

Thus, given these findings, and the reasonably safe assumption that the media attention that a firm receives due to an accident is negative, the following hypothesis can be reasonably made:

Hypothesis 2: The greater the media attention an accident receives, the greater the damage in the related firm's reputation for social performance will be.

The third accident characteristic expected to have an impact on the reputation of the firm involved in the accident is responsibility. As mentioned above, it is reasonable to expect that different accidents would differ with respect to the degree of responsibility that can be reasonably (or unreasonably) attributed by different stakeholder groups to the company involved. In addition, it is to be expected that the degree of responsibility would have an impact on the reputation of the firm and that the greater the blame attributed to a firm, the greater the reputational loss the firm will suffer. This leads to the next hypothesis:

Hypothesis 3: The greater a firm's perceived responsibility, the greater the damage to the involved firm's reputation for social performance will be.

The next accident characteristic to be considered is complexity. In the cases of complex accidents, the extent of the blame of the firm involved cannot be easily determined, and, in the terms of Marcus and Goodman (1991), one can say that the greater the complexity of an accident, the greater the plausible deniability the firm has. Thus, the greater the complexity of an accident, the greater the benefit of the doubt the firm involved will have. Moreover, if the firm has enjoyed a solid reputation in the past, it would be reasonable to expect that, especially in complex situations, stakeholders would give the involved firm even more of a benefit of the doubt. Thus, the following hypothesis is put forth:

Hypothesis 4: The complexity of an accident will be inversely related to the damage of the firm's reputation for social performance.

Finally, given what has been said above about the stakeholder-specific nature of corporate reputation, it should be expected that a given accident would not have the same reputational impact on every stakeholder group. There are a number of reasons for this. First, because various stakeholders view the same events through different cognitive filters (Fiol & Kooor-Misra, 1997), it is reasonable to expect that they would interpret the same accident in different ways. Second, because stakeholders have different, and sometimes even conflicting, interests in a particular firm, different

stakeholders will not be affected in the same way by particular accidents. Third, not all stakeholders would have the same “view” of an accident. Depending on their sources of information, stakeholders might be more or less informed, they might have different parts of the whole picture, or they might be receiving a biased picture altogether (Alvesson, 1990; Fombrun & Shanley, 1990). Finally Zyglidopoulos and Phillips (1998a), using the reputational scores of the AMAC survey of *Fortune* for the period 1984 through 1994, found that the reputational ratings of industry executives were consistently and significantly higher than the reputational scores of industry analysts. Thus, a stakeholder specificity hypothesis emerges:

Hypothesis 5: A particular accident characteristic will lead various stakeholder groups to reevaluate their notions of a particular firm’s reputation for social performance in different ways.

METHOD

To test the above hypotheses, two sources of data were used. The data to measure the dependent and control variables were drawn from *Fortune*’s AMAC surveys. The data for the measurement of the independent variables were collected through a rating process based on newspaper articles collected through Lexis-Nexis and, in a few cases, through the collection of data from newspaper indexes.

The Fortune Database

The AMAC survey has been conducted yearly by *Fortune* magazine since 1983. In this survey, each corporation is rated relative to its competitors on eight key attributes. These attributes are (a) quality of management; (b) quality of products or services; (c) innovativeness; (d) ability to attract, develop, and keep talented people; (e) long-term investment value; (f) financial soundness; (g) use of corporate assets; and (h) community and environmental responsibility. For this rating, an 11-point scale is used (0 = *poor*, 10 = *excellent*). In this article, the “community and environmental responsibility” scores are used as indicators of a company’s reputation for social performance. The companies that appear in the AMAC survey consist of the 5 to 10 largest companies in each of 46 industries from the *Fortune* 1,000 lists for the year prior to the year of the survey. The respondent sample consists of senior executives and outside directors of *Fortune* 1,000 companies and financial analysts who cover these companies. In this article, I draw separately on the scores of the senior executives and financial analysts and use these scores as indicators of the reputation that a

particular company has with two stakeholder groups: its competitors in the industry and the financial community. Throughout its 14-year history, the survey has experienced a response rate of approximately 50%. The total number of questionnaires mailed varied from year to year, but it was generally about 8,000. Questionnaires are mailed in early fall and are followed up by two subsequent mailings, as well as by phone calls and faxes. Responses are received by November, and the highlights of this survey are usually presented in the January issue of *Fortune* magazine. A limitation of the database is the fact that it is correlated with a number of variables (McGuire, Schneeweis, & Banch, 1990), including the possibility of a financial halo (Brown & Perry, 1995).⁵

Locating Accidents and Measuring Their Characteristics

Between the years 1984 and 1995, 652 companies appear in the AMAC database. However, the same companies do not appear every year, with appearance rates ranging every year to just once. Therefore, to facilitate the search for accidents related to companies in the database, 211 companies with continuous reputational data between the years 1989 and 1995 were selected. Subsequently, an extensive Lexis-Nexis search for accidents related to these companies during the time period 1989 to 1995 revealed 109 accidents related to the companies researched.⁶

Once the accidents had been identified and their relationship to specific companies established, a Lexis-Nexis search for newspaper articles describing these events was conducted. This search revealed the first few articles (minimum of one, maximum of three) in *The New York Times* that reported on the event.⁷ These articles made up an accident profile for each event. Based on these profiles, independent raters (management graduate students) trained and under close supervision evaluated and quantified the accident characteristics, using a 7-point Likert-type scale. These characteristics were (a) severity with respect to damage to human life, (b) severity with respect to environmental damage, (c) media attention, (d) company responsibility, and (e) complexity of the event.

Definition and Measurement of Variables

To test the above hypotheses, three kinds of variables were needed: independent, dependent, and control. The independent variables selected were damage to human life (HL), environmental damage (ENV), media attention (MA), company responsibility (RESP), and complexity (COM), and they were the result of the above-described rating process. The dependent variables selected were yearly differences of collective (Y1),

Table 1
 Descriptive Statistics According to Accident Type

Variable	Chemical or Oil Spill			Railway Accident			Airplane Accident			Overall		
	n	M	SD	n	M	SD	n	M	SD	n	M	SD
Y1	24	-0.06	0.67	8	0.00	0.28	35	-0.15	0.32	67	-0.03	0.46
Y2	24	-0.02	0.54	8	-0.03	0.28	35	-0.02	0.37	67	-0.02	0.43
Y3	24	-0.10	1.06	8	0.04	0.35	35	-0.11	0.43	67	-0.09	0.71
DROA	21	-0.62	3.31	8	0.63	2.77	35	-1.83	12.82	64	-1.12	9.68
CR	24	6.58	0.76	8	6.13	0.42	35	5.89	0.83	67	6.16	0.82
HL	24	5.00	3.18	7	7.57	4.54	36	5.89	3.17	67	5.75	3.36
ENV	24	6.17	2.70	7	6.00	3.65	36	3.67	1.39	67	4.81	2.59
MA	23	5.57	3.67	7	9.71	6.26	36	7.44	3.63	66	7.03	4.11
RESP	19	7.58	2.71	8	5.75	3.77	36	5.89	2.91	63	6.38	3.02
COM	18	9.89	6.77	7	10.57	9.57	33	15.82	8.43	58	13.05	7.61

Note: Y1 = change in collective reputational score for social and environmental responsibility; Y2 = change in reputational score of executives for social and environmental responsibility; Y3 = change in reputational score of analysts for social and environmental responsibility; DROA = change in return on assets from previous year; CR = corporate reputation at time $t - 1$; HL = accident severity with respect to damage to human life; ENV = accident severity with respect to damage to the environment; MA = media attention; RESP = company responsibility; COM = event complexity.

executive (Y2), and analyst (Y3) reputational scores, whereas the control variables selected were yearly differences of return on assets (DROA) and prior corporate reputational score (CR). Both dependent and control variables were drawn from the AMAC survey, and all variables were found not to deviate significantly from normality and could, therefore, be used in a multiple regression analysis. The summary statistics of all three types of variables used can be seen in Table 1, broken down by accident category. Overall, 67 data points were used, of which 35 were airplane accidents, 8 were railway accidents, and 24 were chemical or oil spills.

Independent Variables

Because the independent variables were measured through a rating process that relied so much on the inferences of raters, steps to ensure the reliability of the rater scores were taken. Cronbach's alpha and interrater reliability was calculated and found to be satisfactory because the interrater reliability coefficient was consistently significant ($p < .01$) and the Cronbach's alpha indicator was always greater than or equal to .70.

Accident severity with respect to damage to human life (HL) was defined as the extent of damage that humans (dead or injured in any way) suffered as a result of this accident. It was operationalized with the help of

a 7-point Likert-type scale and measured according to the following guidelines: A minor oil spill with no immediate damage to human life received a score of 1. An accident where a limited number of people suffered physical damage but no deaths occurred received a score of 2 to 3. If at least one person died and a few others suffered physical damage, the event scored 4 to 5. If numerous people died, the event received a score of 6 to 7. For example, a plane accident with 180 people dead received a score of 7.

Variable ENV, accident severity with respect to environmental damage, was defined as the damage that the environment suffered as a result of an accident. The guidelines followed for its measurement could be illustrated by the following examples: An in-flight incident with practically no environmental damage received a score of 1. A minor oil or chemical spill received a score of 3 to 4. A major oil or chemical spill received a score of 5 to 7. For example, the *Exxon Valdez* accident received a 6 out of 7.

Media attention was measured by variable MA and was defined as the number of newspaper articles and amount of media time that a particular event received. As for a company's responsibility for the accident, given that the notion of blame is quite clear, raters were simply asked how much blame they attributed to the company for the accident.

Drawing on Perrow (1984), three variables were used to measure three aspects of complexity: (a) the number of factors involved in the event, (b) the transparency of its causes, and (c) the number of interactions among the factors involved. The underlying assumption was that complex events (accidents in this case) would tend to have a great number of factors involved, would not have transparent causes, and would have a great number of interactions among the factors involved. However, most raters did not consider that there was adequate information in the accident profiles to evaluate all three aspects of complexity. Therefore, complexity was measured only as the number of factors involved in the event and the number of interactions among these factors.

In all of the above cases, the rater scores were added to increase the variance; in measuring complexity, two scores from each rater were used: one score measuring the number of factors involved in the event and another measuring the number of interactions among these factors. Finally, a number of adjustments had to be made to the data so that the independent variables would match the dependent ones, because whereas independent variables consisted of measurements that corresponded to particular irregularly spaced events, dependent variables consisted of yearly measurements. To correct this discrepancy, the yearly scores of the independent variables per company were added and these sums were used as independent variables. The result was a reduction in data points, from

109 to 71. But this process artificially inflated the scores in a few instances of companies that experienced four or five relatively minor accidents within the same year. Thus, a further reduction of the data points had to take place, from 71 to 67, by excluding four outlier observations.

Dependent Variables

The dependent variables consisted of yearly changes in the reputational scores of the AMAC survey for community and environmental responsibility. The yearly changes in these scores were used as indicators of the changes in a firm's reputation for social performance. Because of the two groups, industry executives and financial analysts, used by the *Fortune* survey, three dependent variables were identified. First, the yearly differences of the collective (executives and analysts) reputational scores (Y1) for the companies involved were used as an indicator of the impact that a particular accident had on a firm's reputation for social performance. Second, the yearly differences for the reputational scores of industry executives (Y2) were used as an indicator of the changes in a firm's reputation for social performance of a particular stakeholder group: the firm's competitors. Third, the yearly differences for the reputational scores of financial analysts (Y3) were used as an indicator of the changes in a firm's reputation for social performance of another stakeholder group: the financial community.

Control Variables

As control variables, financial performance, prior corporate reputation, and type of accident were used. Financial performance was controlled for because it has been found that financial performance is significantly correlated with corporate reputation (McGuire et al., 1990). Due to its "stability and comparability across firms" (Kim, Hwang, & Burgers, 1989, as cited in Carter & Dukerich, 1998), a return on assets (ROA) ratio, drawn from the AMAC survey, was controlled for. However, because the dependent variables are changes of reputational scores from year to year, it was considered more appropriate to control not for the ROA of a particular year but for the change in ROA from the previous year to the year of the accident (DROA). In other words, the control variable for financial performance was also the yearly change in ROA. Prior corporate reputation (at year $t - 1$) was also controlled for two reasons. First, because it has been argued that prior levels of reputation can influence the way that a company's constituents react to particular events (Fiol & Kooor-Misra, 1997; Fombrun, 1996). Second, given that changes in corporate reputation are

being investigated, controlling for prior reputation means that one is controlling for regression toward the mean effects. Finally, type of accident⁸ was controlled for by including the necessary indicator variables.

Statistical Analysis

Three multivariate regressions were used to analyze the variables presented above. Multivariate regression was considered to be an appropriate statistical technique for this analysis because, even though the data consisted of observations at different points in time for quite often the same companies, given the relative lack of pattern in the data collecting process, no autocorrelation or heteroscedasticity problems were expected, and, indeed, none were found. More specifically, starting from a model that included the control variables (prior corporate reputation, kind of accident, and change in financial performance), three stepwise regression models were constructed: one for executives, one for analysts, and one for the joined scores of the two groups. In addition, tests for the normality of the residuals and for potential interaction effects between the independent variables and the indicator control variables for the type of accident were conducted. These additional analyses found that the residuals did not deviate substantially from normality and that there were no significant interaction effects between the two types of variables.

FINDINGS

Table 2 presents the correlations among all the variables used in this analysis. Given the rather high and significant correlations between some of the independent variables, a concern for multicollinearity is quite reasonable. Therefore, the variance inflation factors (VIF) for all independent variables were calculated and found to be within acceptable limits, indicating that multicollinearity was not unduly influencing the regression models. Significant and negative correlations between prior corporate reputation and changes in the collective reputational score for social performance and the reputational score of industry executives, two out of the three dependent variables, suggest that controlling for prior levels of corporate reputation was appropriate.

Hypothesis 1A predicted a negative relationship between accident severity with respect to human life and changes in corporate reputation for social performance. However, as can be seen from Table 3, no support for this hypothesis was found, because the variable for accident severity with respect to human life (HL) did not reach a level of significance (.05) to be

Table 2
Pairwise Correlations

Variable	1	2	3	4	5	6	7	8	9	10
1. Y1	—									
2. Y2	0.922**	—								
3. Y3	0.827**	0.601**	—							
4. DROA	-0.033	-0.025	-0.050	—						
5. CR	-0.293*	-0.298*	-0.223	0.299*	—					
6. HL	0.152	0.137	0.123	-0.006	-0.140	—				
7. ENV	-0.248*	-0.211	-0.212	0.127	0.182	0.219	—			
8. MA	0.039	0.068	-0.131	-0.038	-0.178	0.577**	0.369**	—		
9. RESP	-0.049	-0.050	-0.004	-0.120	0.016	0.432**	0.682**	0.503**	—	
10. COM	0.207	0.175	0.133	-0.057	-0.290*	0.581**	0.146	0.756**	0.404**	—

Note: Y1 = change in collective reputational score for social and environmental responsibility; Y2 = change in reputational score of executives for social and environmental responsibility; Y3 = change in reputational score of analysts for social and environmental responsibility; DROA = change in return on assets from previous year; CR = corporate reputation at time $t - 1$; HL = accident severity with respect to damage to human life; ENV = accident severity with respect to damage to the environment; MA = media attention; RESP = company responsibility; COM = event complexity.

* $p < .05$, two-tailed. ** $p < .01$, two-tailed.

Table 3
Regression Analyses on Reputation for Social Performance

Variable	Model 1 Changes in Collective Reputational Scores		Model 2 Changes in Reputational Scores of Executives		Model 3 Changes in Reputational Scores of Analysts	
	Standard		Standard		Standard	
	Coefficient	t	Coefficient	t	Coefficient	t
DROA	0.088	0.668	0.1	0.76	0.049	0.351
CR	-0.275	-1.88	-0.333	-2.264*	-0.284	-1.838
COS	0.464	2.626*	0.473	2.662*	0.252	1.472
RA	0.292	2.048*	0.269	1.874	0.184	1.302
ENV	-0.585	-3.676**	-0.525	-3.278**	-0.415	-2.683*
COM	0.401	2.656*	0.391	2.575*		
F	3.464**		3.324**		2.203	
Adjusted R ²	0.316		0.215		0.106	

Note: DROA = change in return on assets from previous year; CR = corporate reputation at time $t-1$; COS = chemical or oil spill; RA = railway accident; ENV = accident severity with respect to damage to the environment; COM = event complexity.

* $p < .05$. ** $p < .01$.

included in any of the three models. Hypothesis 1B predicted a negative relationship between accident severity with respect to environmental damage and changes in corporate reputation for social performance. As can be seen from Table 3, support for this hypothesis was found in all three models (Model 1, collective scores: $\beta = -.585, p < .01$; Model 2, executive scores: $\beta = -.525, p < .01$; Model 3, analysts scores: $\beta = -.415, p < .05$).

Hypotheses 2 and 3 predicted a negative relationship between media attention and changes in corporate reputation for social performance and a negative relationship between responsibility for the accident and changes in reputation for social performance, respectively. However, in both cases, the relevant variables (MA, RESP) did not reach a level of significance to be included in any of the three models, thus providing no support for Hypotheses 2 and 3.

Hypothesis 4 predicted a positive relationship between event complexity and changes in corporate reputation for social performance. In other words, it was predicted that the more complex the accident, the more the various firm constituents would give "the benefit of the doubt" to the firm involved. As can be seen from Table 3, partial support for this hypothesis was found for Model 1, dealing with changes in collective reputational scores ($\beta = .401, p < .05$), and Model 2, dealing with reputational scores of executives ($\beta = .391, p < .05$). In addition, in accordance with the rationale of Hypothesis 4, it could be expected that firm constituents might give the

benefit of the doubt more to firms with good past reputations than to firms with lesser past reputations. Therefore, further analysis for the potential existence of an interaction effect between accident complexity (COM) and prior corporate reputation (CR) was undertaken, and it was found that no significant interaction between event complexity and prior levels of corporate reputation existed. In other words, firms faced with complex events were given the benefit of the doubt, irrespective of whether their prior reputations were high or low.

Finally, Hypothesis 5, the stakeholder specificity hypothesis, predicted that the reputational impact of the same accident characteristic would differ for different stakeholder groups. As can be seen from Table 3, although accident complexity reached significant levels in Model 2 (industry executives), it did not reach significant levels in Model 3 (financial analysts) and, thus, was not included in the model. This finding can provide some very tentative and preliminary evidence in support of Hypothesis 5 under two conditions. The first condition is that the changes in the reputational scores of executives are considered to be a proxy for the firm's reputation for social performance, as perceived by the firm's competitors. The second condition is that the reputational changes of financial analysts are considered to be a proxy for the firm's reputation for social performance, as perceived by the financial community. Under these conditions, the results of this analysis could be seen as a tentative indication that, whereas industry competitors are sensitive to accident complexity, the financial community is not. A potential explanation for this finding could be that the financial community cares mainly about whether profits are affected by the accident, and it would tend to discount, or even ignore, the overall complexity of the event, while focusing exclusively on the event's impact on profits. Of course, this finding concerning complexity can, at best, be seen as a preliminary one and cannot change the fact that a great deal of empirical work is needed before it becomes clear whether the stakeholder specificity hypothesis is supported or not.

DISCUSSION, IMPLICATIONS, LIMITATIONS, AND CONCLUSION

This study can be seen as part of, and as contributing to, two ongoing research streams in the literature. First, it can be seen as part of the research into what are the drivers determining a firm's reputation in general and reputation for social performance in particular (Fombrun & Shanley, 1990; McGuire et al., 1990; Rindova, 1997; Wartick, 1992). Second, this study can be seen as part of the management literature that explores the

impact of industrial crises and other catastrophic events on business firms (Marcus & Goodman, 1991; Perrow, 1984; Shrivastava et al., 1988). Within the first stream of research, which tries to identify and evaluate the drivers behind corporate reputation, this study investigates a relatively unexplored subject: the impact of industrial accidents on the reputation of social performance of business firms. Whereas within the second stream of research, the industrial crises literature, this study is a first exploratory attempt into a systematic investigation of the potential impact that industrial accidents can have on a firm's reputation for social performance. Traditionally, this research stream has investigated in depth a few extreme accidents that have caused major reputational crises in the business organizations involved, but little systematic research on the business impact of accidents has been done.⁹

The first finding of the current research, that accident severity with respect to damage to human life has no impact on a firm's reputation for social performance, no matter how tentative or preliminary at this point, is quite surprising because, if nothing else, it is clearly counterintuitive. Moreover, although several reasons for this unexpected finding could be suggested, further research is needed to understand the lack of impact that damage to human life has had on a firm's reputation for social performance. For example, it could be that accidents causing damage to human life are seen as "acts of God" outside the control or responsibility of the firm, so that in evaluating a firm's reputation, the constituents involved do not include these accidents in their reputational evaluations. This may particularly be the case because most of the life-damaging accidents examined in this study were airplane crashes, where the firm's management is not usually blamed, given all the international safety regulations that all airlines have to comply with. Another possibility is that the data used to capture accident severity did not differentiate between different categories of people who suffered due to the accident. It is conceivable that the suffering of innocent bystanders might have much more of a reputational impact than the suffering of firm employees, who, in a sense, were doing their job and had chosen the associated risks.

The second significant finding of this research, that accident severity with respect to environmental damage has a significant negative impact on the reevaluations of a firm's reputation for social performance, is clearly in agreement with a growing body of literature. This body of literature argues that environmental issues are becoming increasingly important for the effective management of a business corporation (Ackerman, 1975; Bigelow & Fahey, 1993; Mahon & Waddock, 1992; Post, 1978). In addition, this finding can be seen as contributing to the ongoing debate within the business and society literature on whether corporate social performance

pays off (Clarkson, 1995; Freeman, 1994; Friedman, 1970). It could be argued that managers should take precautions to avoid any accident that causes environmental damage because such accidents have a negative impact on a firm's reputation for social performance.¹⁰ Moreover, given the high correlation between reputation and financial performance (Brown, 1997; Brown & Perry, 1995), such accidents could also have a potentially significant impact on the bottom line.

The third finding of this study was that media attention did not have a significant impact on the changes of reputation for social performance. This finding is consistent with Wartick (1992), who found no statistically significant association between changes in corporate reputation and changes in the amount of media attention. Wartick found that the tone of media attention was a more important factor in predicting changes in reputation, but given the methodological limitations of the current study, tone was not accounted for here. However, after reviewing the accident profiles, an observation of the author, verified by one of the raters, was that the tone toward the firm that was involved in the accident was not as negative as might have been expected. Most of the efforts of the articles narrating the accidents studied here seemed to be aimed at describing the event, quite often in minute detail, not at allocating blame to the corporation. This observation could help explain the next finding: that firm responsibility did not have a significant impact on the changes of a firm's reputation for social performance.

The fourth finding of the study was that, although accident complexity did have a significant impact on the reactions of executives, it did not reach significance levels for the analysts. In other words, executives were influenced by the complexity of an accident, whereas analysts were not. A possible explanation for this finding could be that whereas executives focus on the managerial impact of an event, financial analysts focus on the financial liability aspect of the event. In addition, event complexity, one might argue, could play a bigger role in determining managerial impact than financial liability, because managerial impact depends on the rules and norms of the particular firm and industry, whereas financial liability depends on the legal system, which is relatively well formulated and common to all. Another possible explanation might be that executives faced with the complexity of their own situation, and the potential for accidents, may be more sympathetic than analysts, who just care about financial results and are not faced with the complexity of actually managing similar firms.

Finally, the findings from this research provide preliminary and very tentative support for what has been referred to in this article as the stakeholder specificity hypothesis, that is, that stakeholders would differ in

their reputational evaluations of particular firms and would also differ in their reputational reevaluations of events that take place in the life of these firms (Fiol & Kooor-Misra, 1997; Zyglidopoulos & Phillips, 1998a). Of course, due to data availability, only measures that could at best be seen as proxies for the reputational evaluations of the financial community and the firm's competitors were investigated. However, given the expected proximity of the views of the financial community and the firm's competitors, one could argue that more dissimilar stakeholder groups would differ in their reputational evaluations even more.

Implications

The research implications of this article are twofold. First, an approach similar to the one used here could be applied to examine and investigate the reputational impact of other kinds of events, such as scandals, product recalls (Marcus & Goodman, 1991), or even downsizing and diversifying decisions. Second, a similar approach could be used, at a different level of analysis, to investigate the impact of numerous kinds of events on the reputations of industries, or even countries. For example, to what extent did the *Exxon Valdez* incident impact the reputation of the oil industry as a whole?

In addition, from a managerial perspective, the fact that accident severity with respect to the environment had a significant reputational impact means that managers should pay more attention to environmental issues. This is so because it seems that environmental damage associated with a particular business firm, even when the firm is not blamed directly for the event, has a negative impact on the firm's reputation. Second, to the extent that the research in this article has found support for the stakeholder specificity hypothesis, managers should take the time and effort to understand how different stakeholder groups form and change their minds about the reputation of a particular firm.

Limitations and Further Research

This article can be seen as an exploratory first step in the direction of better understanding the impact that accidents, and particularly specific accident characteristics, can have on the reputation for social performance of a firm. It does, however, have a number of limitations. First, the tentativeness and preliminary nature of the findings cannot be stressed enough. Second, given the method used to find accidents, the findings of this study are limited to the three kinds of events investigated here: railway accidents, airplane accidents, and chemical or oil spills. Third, no matter the

efforts taken to ensure rater reliability, the study is constrained by the subjectivity of the rating process used to measure the accident characteristics. For example, in rating for complexity, raters were asked to perform a rather complex evaluation of an event from a simple narrative. Fourth, a limited number of firms, only firms in the AMAC database, were investigated. Fifth, given that the AMAC reputation database has only data for industry executives and financial analysts, the link with the stakeholder specificity hypothesis is very tentative, at best. Sixth, the impact of an accident on the reputation of a firm could extend beyond the end of the year horizon. Unfortunately, given data limitations, such considerations were not investigated in this study. Finally, a major limitation of this study is the fact that it does not control for managerial responses to the accidents the companies faced. This is a serious limitation that needs to be addressed in future research, because managerial responses to accidents can reduce or intensify the reputational impact of a given accident. Meznar and Nigh (1995) argued that managers faced with a crisis could react in two ways: They could try to distance their firm from any kind of blame and responsibility, that is, they could "buffer," or they could accept responsibility and try to see how to fix things, that is, they could "bridge." Or, using the terminology of Marcus and Goodman (1991), firms facing a crisis could respond to the demands of their various stakeholders by sending accommodative or defensive signals. Zyglidopoulos and Iqtidar (1998) found that the reputational impact of various kinds of negative events is reduced when managers tend to follow a bridging rather than a buffering kind of strategy. Therefore, future research needs not only to refine and improve on the above methodological limitations but also to control for different kinds of managerial reactions after the event, and at the very least for two kinds of managerial responses: buffering and bridging.

Conclusion

The purpose of this study has been to link, in a productive way, the fields of corporate reputation and industrial crisis management. More specifically, the aim has been to understand the impact that accidents have on the changes of corporate reputation for social performance. The main findings of the study can be summed up as follows: First, support was found for the hypothesis that accident severity, with respect to environmental damage, negatively impacts a firm's reputation for social performance. Second, accident complexity did have some impact in the evaluations of industry executives. Third, industry executives and financial analysts did differ in their reevaluations of a firm's reputation for social performance because of accidents. In addition, it was argued that this last

finding could be tentatively seen as supportive of the stakeholder specificity hypothesis.

NOTES

1. Hall (1992, 1993), who surveyed 847 CEOs throughout the United Kingdom from a number of industrial sectors, found that these CEOs estimated that it would take them, on average, 10.8 years to rebuild their firm's reputation if they had to start from scratch.

2. It would be more appropriate to refer to the accidents that will be examined in this work as *company accidents*, but because the term *accidents* has been in use in the crisis management literature, it is used here as well.

3. It is possible to attribute "operator error" among the causes of the accident, but, given the complexity of the events, "the operator is confronted by unexpected and usually mysterious interactions among failures; saying that he or she should have zigged instead of zagged is possible only after the fact" (Perrow, 1984, p. 9).

4. Victims are "the people who are killed, injured or otherwise suffer loss or misfortune" (Marcus & Goodman, 1991, p. 285) as a result of an accident. Victims often seek legal counsel and press charges against the company involved. Victims can be seen as a new category of stakeholders that was created suddenly because of an accident (Marcus & Goodman, 1991; Zyglidopoulos & Phillips, 1998b). Another view, using the terminology of Mitchell, Agle, and Wood (1997), is that of victims as "latent" stakeholders who became "definitive" as a result of an accident.

5. To control for this financial halo of the data, financial performance is included as a variable in the subsequent statistical analyses.

6. The criterion as to whether an event was characterized as an accident was simply the fact that Lexis-Nexis referred to the event as an accident related in some way to the company under investigation. Three kinds of accidents were found: railway accidents, chemical or oil spills, and air-related accidents.

7. In a few cases, other major newspapers such as *The Wall Street Journal* or *The Washington Post* were used.

8. Based on the classification scheme used by *The New York Times*, three kinds of accidents have been identified and included in this research: railway accidents, chemical or oil spills, and air-related accidents (see Table 1).

9. A notable exception is the Marcus and Goodman (1991) study.

10. An underlying assumption of the firm's constituents, which could help explain the discrepancy between the first finding (concerning damage to human life) and the second finding (concerning damage to the environment), could be that whereas managers do take all possible precautions to avoid human life injury, they do not always do so to avoid environmental damage.

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Stelios C. Zyglidopoulos is an assistant professor at the College of Business at the Rochester Institute of Technology. He has been previously affiliated with the Faculty of Business Administration at Erasmus University in Rotterdam and gradu-

ated from the Faculty of Management at McGill University. He has published articles in a number of management journals, including the Journal of Management Studies, Business & Society, and Organization. His research interests include the study of the strategic management of corporate reputation, corporate social responsiveness and social issue management, and the impact of founding conditions for organizational evolution and change. He can be reached via E-mail at szyglidopoulos@yahoo.com.

Stakeholder Legitimacy Management and the Qualified Good Neighbor: The Case of Nova Nada and JDI

CATHY DRISCOLL

Saint Mary's University

ANNIE CROMBIE

Dalhousie University

This article focuses on the company-stakeholder relationship between a large pulp and paper company and a small monastery and nature retreat center. The literature on stakeholder management and organizational legitimacy provides a theoretical foundation. The analysis demonstrates how organizational power and legitimacy can influence stakeholder legitimacy. The authors illustrate the ways that a company can manage the legitimacy of stakeholders through the use of political language and symbolic activity. The results contribute to a better understanding of stakeholder identification, salience, and the different contexts of legitimacy in the company-stakeholder relationship. Implications for stakeholder research and practice are also discussed.

It has been suggested that there has been little stakeholder research that puts the focus on the stakeholder rather than on the firm (Frooman, 1999). A stakeholder-oriented research approach has both strategic and normative implications for management, from better managing stakeholder relations to understanding the importance of ethically balancing stakeholder interests. By taking an in-depth look at the conflict between a company and one of its stakeholders, the present study contributes to the understanding of stakeholder identification and salience by illustrating how organizational power and legitimacy can influence stakeholder legitimacy. The study considers how a company can use various types of organizational power to decrease the legitimacy of a potential stakeholder. In particular, we examine management's use of political language and symbolic activity. The study also explores the different contexts of stakeholder legitimacy

that influence stakeholder identification and salience. We apply and extend the work of Mitchell, Agle, and Wood (1997), contributing to descriptive and normative theories of stakeholder identification and salience.

THEORETICAL BACKGROUND

The Stakeholder Framework

Stakeholder theory is concerned with the nature of the relationship between the firm and its stakeholders (Jones & Wicks, 1999). It concerns the management of “potential conflict stemming from divergent interests” (Frooman, 1999, p. 193). Freeman (1984) defined stakeholders as groups or individuals who can significantly affect or be affected by an organization’s activities. However, the literature ranges from broad, inclusive definitions to more narrow views of the firm’s stakeholder environment. Some inclusive definitions suggest that stakeholders have intrinsic value and managers have a moral duty to be responsible to a variety of stakeholders (Donaldson & Preston, 1995; Evan & Freeman, 1988; Freeman & Evan, 1990). Organizations that are “stakeholder serving” are said to have “frequent, high-quality interactions with their stakeholders” (Carroll, 1995, p. 57), and communications are characterized by proactiveness, interactiveness, genuineness, and frequency satisfaction (Starik, 1990).

More narrow strategic or instrumental perspectives (Donaldson & Preston, 1995), on the other hand, define stakeholders as those groups or individuals that are in a mutually dependent, risk-based, or exchange relationship with a firm (e.g., Clarkson, 1995; Greenley & Foxall, 1997; Harrison & St. John, 1996; Mitchell et al., 1997; Nasi, 1995; Nasi, Nasi, Philips, & Zyglidopoulos, 1997). This approach to stakeholder management involves identifying and prioritizing stakeholder issues based on managerial perceptions of stakeholder power (Harrison & St. John, 1996; Greenley & Foxall, 1997). Recent research has found empirical support for a strategic stakeholder management model but not for an intrinsic stakeholder commitment model in which managers have a moral responsibility to a broad set of stakeholders (Berman, Wicks, Kotha, & Jones, 1999; see also Agle, Mitchell, & Sonnenfeld, 1999; Frooman, 1999). Trevino and Weaver (1999, p. 225) have suggested that empirical work on the relationship between the firm and its stakeholders “can help to understand when and why managers might not pay as much attention to a wide range of stakeholders as normative theory tells us they should.”

The company-community stakeholder relationship is especially relevant to the current study. It has been suggested that community stakeholder

interests are often placed highest by companies (Bendheim, Waddock, & Graves, 1998), especially in the natural resources sector (Henriques & Sadorsky, 1999). Others have also suggested that the community is a stakeholder holding high managerial salience (Altman, 1998; Gabor, 1991). Burke (1999) emphasized that companies cannot strategically afford to ignore community expectations and have to design their community relations program so that they are seen as a "neighbor of choice."

Mitchell et al. (1997) have recently attempted to refine a stakeholder theory based on Freeman's (1994) principle of "who or what really counts" as a stakeholder in management thinking. They suggested that stakeholders have one or more of the following three attributes: power to influence the firm, legitimacy of a relationship, and urgency of a claim. "Definitive stakeholders" are categorized as having both power and legitimacy and also an urgent claim upon the firm; these are the stakeholders who have priority (Mitchell et al., 1997, p. 878). "Dependent stakeholders" are those with an urgent and legitimate claim who depend on other dominant stakeholders or managerial values to carry out their will (p. 877). On the other hand, "demanding stakeholders" with urgent claims but no power or legitimacy are "the mosquitoes buzzing in the ears of managers: irksome but not dangerous, bothersome but not warranting more than passing management attention, if any at all" (p. 875).

Power, Legitimacy, and Urgency

Power is an important variable that has been used to identify and prioritize stakeholders in many stakeholder theories. Some have suggested that corporations respond to the most powerful stakeholder issues (Clarkson, 1995; Nasi et al., 1997). For example, Nasi et al. (1997) found that forestry companies in Canada and Sweden focused on the issues that were relevant to the most powerful stakeholders rather than on those issues that were relevant from an ethical or socially responsible point of view.

The role of power is central to managerial decision making. Organizational and management theories largely focus on utilitarian resource-exchange and dependence-based relationships (e.g., Blau, 1964; Oliver, 1991; Pfeffer, 1992; Pfeffer & Salancik, 1978). The literature provides several frameworks that have been used to help understand various bases and uses of organizational power (e.g., Etzioni, 1964; Pfeffer, 1981, 1982, 1992). For example, Etzioni (1964) categorized the concept of power on the basis of coercive power (utilizing force or threat), utilitarian power (utilizing material resources or financial incentives), and normative power (utilizing symbolic influences).

Power competes with legitimacy in many management theories (e.g., agency, behavioral, institutional, population ecology, resource dependence, and transaction cost; Mitchell et al., 1997). This coupling appears to carry over into stakeholder theories of the firm. Mitchell et al. (1997, p. 859) suggested that although legitimacy and power are independent, “sometimes overlapping” variables (see also M. Weber, 1947), managers consider how these two attributes interact when determining stakeholder salience. In the words of Mitchell et al., “Legitimacy gains rights through power” (p. 870). Earlier, Stinchcombe (1968) suggested that legitimacy is actually defined by those holding social power.

Legitimacy has been described as the generalized perception that the actions of an entity are desirable or appropriate within some socially constructed system of norms, values, beliefs, and definitions (Suchman, 1995; M. Weber, 1947). However, according to Suchman (1995, p. 573), the character of legitimacy is multifaceted, and legitimacy “will operate differently in different contexts.” The management literature has included instrumental and normative bases for legitimacy. An instrumental approach views legitimacy as a resource that can be manipulated (e.g., Dowling & Pfeffer, 1975; Pfeffer & Salancik, 1978; Suchman, 1995). This approach focuses on the “self-interested calculations of an organization’s most immediate audiences” (Suchman, 1995, p. 578). In an instrumental stakeholder theory, bases for legitimacy include contractual relationships (based on legality, morality, or ownership; see Evan & Freeman, 1988) or exchange-based relationships, where “critical resources” are supplied by one who owns the resources (Hill & Jones, 1992, p. 133). Normative legitimacy, on the other hand, is based on normative approval and the rightness or wrongness of organizational actions (Aldrich & Fiol, 1994; Suchman, 1995, p. 576). It has been suggested that in most of the literature, stakeholder legitimacy is grounded in pragmatic evaluations of stakeholder relationships rather than normative assessments of moral propriety (see Aldrich & Fiol, 1994).

At the organizational level, legitimacy has been referred to as the acceptance of organizational actions by the external environment or social expectations (DiMaggio & Powell, 1983; Donaldson, 1983; Dowling & Pfeffer, 1975; Meyer & Rowan, 1977; Meyer & Scott, 1983; Wartick & Cochran, 1985; Wood, 1991). Although acting in consonance with stakeholder expectations can enhance legitimacy (Logsdon, 1991), it has also been suggested that organizations may be able to ensure legitimacy by using communication to change the definition of legitimacy so that it conforms to current practices (Dowling & Pfeffer, 1975, p. 127). According to Pfeffer (1982; see also Richardson & Dowling, 1986; Scott, 1995), organizations use political language and symbolic activity to discredit the

symbols and language used by other parties and to justify decisions. In this way, the organization's use of its power is seen as more "subtle and indirect" (Pfeffer, 1982, p. 193).

Although our analysis focuses more on the attributes of power and legitimacy, we also consider the relationship between the urgency of a stakeholder claim and the legitimacy of that claim. According to Mitchell et al. (1997), stakeholder urgency is defined as the stakeholder's claim for immediate attention. It is based on the ideas of time sensitivity ("degree to which managerial delay in attending to the claim or relationship is unacceptable to the stakeholder," p. 867) and criticality ("importance of the claim or the relationship to the stakeholder," p. 867). Although the focus in Mitchell et al.'s model is on the stakeholder's perception of the urgency of his or her claim, it is acknowledged that it is managers' perceptions of stakeholder attributes that determine stakeholder salience. These perceptions have been reported to be biased toward economic short-termism (Laverty, 1996). Others have similarly suggested that managers are shortsighted in their planning horizons and focus on short-term profits (Agle et al., 1999; Schumacher, 1973; Srikantia & Bilimoria, 1997; Stead & Stead, 1996). For example, Agle et al. (1999) recently found evidence supporting the idea that shareholder urgency drives most managerial strategies.

METHOD

This research focused on the company-stakeholder relationship between J.D. Irving, Limited, and Nova Nada Monastery. J.D. Irving (JDI) is a very large, private New Brunswick company with substantial forest, pulp, and paper operations throughout eastern Atlantic Canada. Nova Nada was a small monastery and nature retreat center situated in southwest Nova Scotia. The research focused on the conflict that arose between Nova Nada and JDI when the company began cutting near Nova Nada during the mid-1990s. The research approach was naturalistic (Lincoln & Guba, 1985) and largely inductive (Glaser & Strauss, 1967). We utilized triangulation by data source, method, and multiple researchers (Denzin, 1978).

Data were collected over a period from June 1998 to November 1999. The focal methods for data collection were an in-depth semistructured interview, a 6-hour site visit during which we talked with six monks and a retreatant; participant observation at a rally, and collection of relevant government documents, business documents, press releases, communiqués, videos, Web sites, news clippings, and other media articles. This resulted

in a complex and rich data source of material dating from 1994 to 1999. An interview was held with Mother Tessa Bielecki, the primary spokesperson for the monks: It lasted approximately 3 hours and was tape-recorded and transcribed verbatim. Mother Tessa was presented with our analysis and asked for feedback on interpretation (Lincoln & Guba, 1985).

The data was coded by thematic units (multisentence chunks of documents). In addition, one of the authors revisited the initial codings several times to demonstrate internal consistency in the coding process (Miles & Huberman, 1994, p. 64). A few codes were revised in light of new conceptual insights. For example, the code for "good neighbor" was changed to "qualified good neighbor" to reflect the economic and strategic dimensions of the "good neighbor" theme used by the company. Both authors coded documents and transcripts and agreed on more than 75% of the transcript and document units, demonstrating intercoder reliability (R. P. Weber, 1990). This is based on the number of agreed-on coded units divided by the total coded units on 5 to 10 pages of each set of documents (Miles & Huberman, 1994, p. 64).

Because data was nonnumerical and largely unstructured, Q.S.R. N.U.D.-I.S.T. was chosen as an appropriate computer package to facilitate management and content coding of the data, indexing and searching for specific terms, and organizing both online and offline documents. N.U.D.-I.S.T. is one of the top programs available to assist with coding-oriented qualitative data analysis (Weitzman & Miles, 1995).

We acknowledge from the outset that the analysis is partially biased toward the perspective of one side to this conflict. However, as mentioned earlier, there are benefits to research that puts the focus on the stakeholder rather than on the firm (Frooman, 1999).¹ Based on our research approach, the following case details emerged.

THE CASE OF NOVA NADA AND J.D. IRVING, LIMITED

Forestry in Canada and Nova Scotia

Historically, forestry has played a dominant role in the economy of Canada. Canada is the world's largest exporter of forest products, and the forest industry is the greatest contributor to Canada's balance of trade. More than 350 communities across Canada, many of them small one-industry towns, rely on the forest products industry for economic survival (Canadian Forest Service, 2001a). More than 90% of Canadian forests are publicly owned (approximately 71% provincial and 23% federal; Canadian Forest Service, 2001b). Legal accountability rests with the provinces, and responsibility for forest management is contracted out to

companies. Contrary to the norm in most provinces, in Nova Scotia, the majority of forest land is privately owned. The forest sector payroll in Nova Scotia is estimated to be around \$325 million, and there are approximately 22,000 direct and indirect forest-related jobs ("Is Nova Scotia's Forest Industry Going the Way of the Fishery?" 1999, p. A14). This figure is significant, given that the Atlantic provinces have traditionally had higher rates of unemployment when compared to the rest of Canada and the fact that they rely heavily on resource-based industries.

The ecology of the forests has drawn increasing attention over the past decade. Although there is a great deal of scientific uncertainty surrounding ecological issues in the forests, there is scientific consensus that the rate of removal of the world's forests is related to global climate change, the disappearance of certain species, and other negative ecological repercussions (Brown, 2000). Current conflict centers on the rate of deforestation and the methods used to cut trees. Although production of wood products in Canada has increased over the past decade, the number of jobs in the forest industry has decreased because of the use of large-scale mechanized machines and clear-cutting practices (May, 1998, pp. 28-29). Most of Nova Scotia is made up of a mixed deciduous and coniferous Acadian forest, which is considered to be an endangered forest ecosystem (May, 1998). Forest management practices in Nova Scotia were first criticized over 30 years ago (Atlantic Development Board, 1968). Some are concerned that Nova Scotia's forest industry is becoming comparable to the cod fishery, which has essentially collapsed and shows few signs of renewal ("Is Nova Scotia's Forest Industry Going the Way of the Fishery?" 1999).

There have been several significant international, national, and provincial forest policy initiatives in the past decade that have legitimated nontimber forest values in society. For example, the 1998 National Forest Strategy, endorsed by government and industry associations, states that forest management should meet a broad set of needs for all Canadians and that "the spiritual qualities and inherent beauty of our forests are essential to our physical and mental well-being" (Natural Resources Canada, 1998). For the most part, forest companies and forest-related industries as a whole have pushed for self-regulation and voluntary, market-based approaches to responsible forest management, such as the development of industry-wide codes and voluntary certification practices. For example, the Forest Stewardship Council (FSC), an international, nonprofit organization that is affiliated with environmental organizations such as the World Wildlife Fund, certifies companies based on an established set of criteria. One of the FSC's objectives is that forest resources "be managed

to meet social, economic, ecological, cultural, and spiritual needs of present and future generations” (FSC, 2001). One of the criteria the company must meet to be certified is to have “procedures for protecting areas of special cultural or religious significance” (FSC, 2001). An article entitled “Strategy for Tourism in Nova Scotia” (1996, p. 7) has also recently emphasized new opportunities for Nova Scotia’s forests: “Today, more than ever, many people are looking for a kind of spiritual renewal through travel, wanting to experience nature and rediscover spiritual values.”

The Nova Nada–JDI Conflict

Nova Nada monastery and spiritual retreat was established in 1972 by the Carmelite monks on a 58-acre piece of land in southwest Nova Scotia that had previously been a hunting and fishing lodge. The monks chose the site because of its natural beauty, solitude, and historical and cultural significance. Nova Nada was both a home and a business for the 10 monks residing there, who offered silent wilderness retreats to the public.

In 1994, JDI, bought land next to Nova Nada. JDI is one of the biggest family-owned businesses in North America. The company controls millions of acres of land in the Atlantic provinces and Maine and owns 100,000 hectares in Nova Scotia (“The Facts,” 1998). The Irvings holdings have been estimated at U.S. \$3.7 billion, and 1 in 12 people in New Brunswick are employed by their oil, timber, publishing, shipbuilding, and retail operations (www.forbes.com, August 1, 1999).

In the summer of 1995, JDI began cutting near Nova Nada. The monks filed a formal complaint with the Department of the Environment in an attempt to stop JDI from spraying chemicals on the roads near Nova Nada. Through the spring and summer of 1996, the monks and retreatants felt disrupted by the noise caused by road building, cutting, chipping, and hauling of wood. The monks contacted the police, the Department of Lands and Forests, and JDI to express their concerns. The issues they discussed at the time were (a) alleged damage that equipment was inflicting on the road to Nova Nada and the alleged danger posed by equipment being parked or operating on or alongside the road and (b) alleged use of clear-cut practices, alleged impact on biodiversity, objection to chemical sprays, “loss of a sense of wilderness,” unknown effects on lakes and watersheds, and noise pollution.

That summer (1996), at a meeting with a JDI representative, the monks requested maps of the company’s land holdings, locations and timetables of road-building and harvesting plans, and a warning when JDI activity would be close to Nova Nada so that the monks could prepare for the

disruption. The monks reported delays in receiving this information. They also requested to meet with J.D. Irving, the president and CEO of the company.

Mother Tessa reported that from October 1996 to June 1997, the noise levels intensified and were unbearable for the monks and retreatants. According to the monks, the noise was worse at night and could be heard even with earplugs. In June 1997, the monks were provided with maps of the company's operations. In an August 11th meeting with three JDI representatives, the monks expressed their continued frustration and suggested that JDI consider returning the land to a protected wilderness area.

On August 28, 1997, the first day the story appeared in the press, Mr. Irving met with the monks at Nova Nada, along with four other JDI representatives. At this meeting, he stated that the company could not donate any land but that the company would consider using less intrusive equipment when possible and adjust its schedule to accommodate the monks. On September 9, 1997, the monks faxed a personal letter to Mr. Irving stating their final position. They stated that they could not function as a monastery and a retreat center if the following conditions were not met:

1. that the intolerable noise you create around us cease within a two-mile radius;
2. that the proposed road which virtually brings you to our "front yard" not be built;
3. that you not cut along our southwest boundary which virtually brings you to our doorstep;
4. that you create a buffer zone of silent wilderness in a two-mile radius around us (thereby meeting the first three requirements).

After several weeks, the company explained that the 2-mile buffer zone could not be granted.

The monks turned to the government to discuss the possibility of giving JDI another piece of land in exchange for the two miles surrounding Nova Nada. The minister of natural resources stated his intention to discuss a potential swap with the crown forester, but the monks never heard back from him. At a later date, the premier of Nova Scotia cancelled a meeting at the last minute, and, at this time, the minister of natural resources relayed that no land was available.

Throughout October 1997, JDI made several offers that were seen as insignificant by the monks. For example, on November 5, JDI offered a 1-mile no-harvest zone. In the media, this was phrased as a 2-mile buffer

with concessions in the second mile. The monks replied that anything less than a 2-mile no-cut zone would be unacceptable because of the noise level.

From December 1997 to April 1998, both parties respected a media embargo. However, due to increasing frustration at what the monks regarded as the unwillingness of the company to respond to any of their suggestions, the monks called a press conference early in April. The monks asked for public support and announced that they would have to leave Nova Scotia by December 1998 if the dispute was not satisfactorily resolved.

The end of April marked 6 months of the experimental 1-mile buffer zone. The monks insisted that this was not acceptable. In an attempt to break the stalemate, Mother Tessa requested to meet alone with Mr. Irving in May 1998. The monks stated their wishes to discuss the option of buying the second mile or vacating Nova Nada to allow JDI a one-time harvest and then to establish the 2-mile buffer zone. The monks also appealed to JDI's efforts in 1997 to attain FSC environmental certification, suggesting that using the second mile as a nature reserve would help JDI to meet the necessary requirements. Mr. Irving and three company representatives met with Mother Tessa on May 16, 1998. According to Mother Tessa, JDI refused to discuss the sale of the land or alternative uses of the second mile.

On July 31, 1998, supporters of Nova Nada organized a rally in Halifax to raise public awareness of the conflict between Nova Nada and JDI. Although this rally was widely covered by media, and several politicians and environmentalists attended, only about 200 supporters showed up, and apparently, the rally failed to convince JDI to change its mind. On October 1, 1998, the 10 monks left Nova Scotia and leased their property for a year to the Maritime Ecoforestry Association. In an October 1999 press release, the monks announced their plans to sell Nova Nada. A timeline of events is provided in Table 1.

ANALYSIS

The analysis comprises two sections. The first section applies Mitchell et al.'s (1997) stakeholder identification and salience model to the Nova Nada case. In the second section, we analyze the ways in which JDI appeared to manage the legitimacy of Nova Nada. Pfeffer's (1981, 1982, 1992) and Etzioni's (1964) frameworks of organizational power are used to guide the analysis. Additional case data is integrated throughout.

Table 1
Timeline of Events

<i>Date</i>	<i>Event</i>
1972	Monks establish Nova Nada monastery and retreat
1994	JDI buys land next to Nova Nada
1995	
Summer	JDI begins logging operations near Nova Nada
1996	
Spring, summer	Monks file complaints regarding noise, cutting methods, and chemical spraying
August	Monks request maps, schedules of cutting, and meeting with Mr. Irving
1997	
June	Monks provided with maps and schedules
August	Story goes to press; Mr. Irving meets with monks at Nova Nada
September	Monks request 2-mile silent buffer surrounding Nova Nada
November	JDI offers 1-mile silent buffer zone
1998	
April	Monks announce plans to leave Nova Nada if concessions are not met
May	Mother Tessa meets with JDI representatives to discuss other options
July	Monks hold a rally in Halifax
October	Monks leave Nova Scotia for year
1999	
October	Monks announce plans to sell Nova Nada

Application of Mitchell et al.'s (1997) Stakeholder Identification and Salience Model

Did Nova Nada Have Power?

It would appear that the monks had some power; they even spoke of a "higher power," but their power was very limited. They had little, if any, utilitarian power (Etzioni, 1964). Compared to JDI, Nova Nada's resources were extremely limited, especially their financial resources. As Mother Tessa (interview, June 1998) pointed out, "We come with absolutely nothing. That is why we are called 'Nada.'" Although they had some assistance from many of their supporters, their financial disadvantage was evident. In addition to taking a vow of poverty, the monks were part of one of the poorer dioceses in Nova Scotia. The monks also experienced disadvantages related to technological resources. "We are at a dis-

advantage here in this remote wilderness without phone, fax, E-mail, or daily newspapers” (letter to JDI, September 9, 1997). The only example of utilitarian power that might have had an influence over the company was the monks’ public support of the Sierra Club’s call for a boycott of Irving products. A drain on the resources of the monks and the impact of this on their livelihood was also evident in the following quotations from Mother Tessa’s interview:

I’m so worn out. I’m so broken hearted. I never thought of us as powerless. . . . I always thought of us as strong. But this is something else altogether. We’ve done nothing but this for a year, and we have no life other than J.D. Irving. . . . It’s taken all of our time, all of our energy, a tremendous amount of money.

By their nature, the monks were not able to use coercive power (Etzioni, 1964). As Mother Tessa (interview, June 1998) pointed out, “Our whole life is about reconciliation. . . . I never have been political in my whole life.” It was evident that what the monks regarded as the political and confrontational style of negotiations contrasted with the monastic life the monks were used to. The monks’ approach to negotiations was extremely open and emotional, as exemplified in these additional quotes:

We felt as monks and as followers of the Gospel that we would have to do something differently . . . speaking more truth, being more forthright, not playing games, that kind of thing.

Because this is our way, we’ve tried to be personal, human, honest. You know, what you see is what you get.

Once they gained the attention of the media, the monks were able to rely on normative power, based on the use of symbolic influence (Etzioni, 1964). For example, the monks used the media to normatively challenge some company arguments and tactics. In one press release, the monks asked, “Would this be acceptable if it were asked of a restaurant, a hotel, a golf course, other types of recreational facilities or small businesses?” (June 27, 1998). However, here, they also had several disadvantages. First, the monks had little experience in public relations. They reported only making one media call at the beginning of negotiations, declining many media interviews, and deciding on no media involvement for a 3-month period. The monks also had little experience in negotiating or lobbying, and they possessed limited business knowledge. The monks’ limited knowledge of business and forestry terminology was evident: “We don’t

know about capital intensive or fellerbunchers. . . . Stakeholders, never knew that [word] until a year ago" (Mother Tessa).

Did Nova Nada Have a Legitimate Claim?

Based on the following evidence, it would appear that Nova Nada had legitimacy. First, Nova Nada received support from many organizations, institutions, the general public, and the media. Their network included business, economists, government, local environmental groups and the Sierra Club of Canada, church leaders and interfaith groups, academics, politicians, a national social justice group, a women's group, and an ecotourism foundation, among others. Thousands of people resided at Nova Nada each year and depended on Nova Nada's spiritual and outreach services (e.g., Alcoholics Anonymous). Approximately 18,200 signatures were sent to JDI, the Nova Scotia legislature, and the FSC. At least 635 letters (based on copies sent to Nova Nada) were sent, largely from former guests and retreatants, to the company (294), the government (247), the media (62), and the FSC (32). Members of a citizen's group, the Friends of Nova Nada, went to visit local and provincial politicians to inform them of the situation.

In addition to the provincial, national, and international initiatives legitimating spiritual and cultural forest values described in the case, there was JDI's application for FSC environmental certification on some of its lands. In particular, the FSC criteria calling for protection of areas of cultural and spiritual significance legitimated Nova Nada's claims. Nova Nada contributed to the cultural and spiritual diversity of Nova Scotia through its monastic tradition and the past history of the Birchdale hunting and fishing lodge. Nova Nada was described as a "great work of art or an archaeological treasure" (letter, August 1997).

On the other hand, JDI never met with the monks prior to logging to discuss the impact of logging on the monks and the retreat center. The company never gave the monks much attention until after the conflict gained media attention. In addition, the following quote by a local JDI manager symbolizes the lack of legitimacy attributed to Nova Nada by the company:

"The company made them a very generous offer, especially when you consider that *they were not obliged to offer the monks anything* [italics added] (JDI, 2001). Many of the monks' most loyal supporters, such as the interfaith groups, were not well organized or recognized. In addition, no local or provincial politician volunteered to take the case on, and none of Nova Nada's supporters ever approached the federal level of government

on behalf of Nova Nada. Moreover, one of the monks criticized the institutional Catholic Church for not speaking out more loudly on behalf of Nova Nada (Gorham, 1998).

Did Nova Nada Have an Urgent Claim?

The monks' sense of urgency is evident in such words that appeared in correspondence and the media as "urgent," "crucial," "press," "immediate," "crisis," and "threatens." Mother Tessa referred to "desperate moments." The monks and retreatants reported experiencing insomnia and mental anguish. Many retreatants stated that they would not return because of the noise, forcing the monks to cancel all group retreats during the summer of 1998.

However, the company seemed to have a different perspective on the urgency of the situation. They addressed the urgency of the situation only once media pressure began to increase. For example, Mr. Irving never met with the monks until the first story of the conflict was in the newspapers. The delays in correspondence also indicate that the company failed to address the urgency of Nova Nada's claims. In addition, the company's more generous offers came months after the monks had left the country.

Stakeholder Category

From the company's perspective, Nova Nada appeared to start off as either a "potential stakeholder," with no stakeholder salience, or a "latent-demanding stakeholder" with an urgent claim but no power or legitimacy (Mitchell et al., 1997, p. 875). The monks gained some power, and hence some salience, once the media became involved, as evidenced by JDI's move from a passive to a more active stance regarding company-stakeholder relations. If a stakeholder has some power and a developing urgent claim, the model predicts that the stakeholder becomes a "dangerous stakeholder" (Mitchell et al., 1997, p. 877).

Because Nova Nada was dependent on JDI, and JDI did not appear to be dependent on Nova Nada, a reading of Frooman (1999) would suggest an indirect influence strategy aimed at an ally who held more power over the company as being most appropriate for the monks. However, more dominant stakeholders (Mitchell et al., 1997), such as the government and the Church, refused to become actively involved. The monks reported several cancelled and postponed meetings with government officials. Two separate department of natural resources spokespersons stated that the government had no intention of becoming involved in a private matter

Table 2
Application of Mitchell, Agle, and Wood's (1997) Stakeholder Framework

<i>Nova Nada's Stakeholder Attributes</i>			<i>Prediction for Stakeholder Class</i>
<i>Power</i>	<i>Legitimacy</i>	<i>Urgency</i>	
Limited; changed over time	Societal level; little local legitimacy	Increasing sense of urgency	"Dangerous" was ruled out; "demanding"

between two landowners (Pannozzo, 1998; Redwood, 1998), despite the fact that 57% of the 2-mile buffer was public-owned land leased to the company. According to Mother Tessa:

[The government was like] Pontius Pilate, you know: "I'm just washing my hands of this." . . . And see, everybody, almost everybody, loves us; everybody supports us. But in terms of who's willing really to take a stand, and make this their issue, even our own supporters aren't doing that."

Table 2 summarizes the application of this stakeholder framework. The monks had some normative power, but they had little relative power in their relationship with JDI. Although the monks had some influential supporters and a strong showing of public support, dominant stakeholders such as the government and the Church did not appear to use their power and legitimacy to protect Nova Nada. Given that neither the company nor Nova Nada ever considered the monks' use of coercive or violent activities, we conclude that the company considered Nova Nada to be a "demanding stakeholder" (Mitchell et al., 1997, p. 875).

Managing Stakeholder Legitimacy

The data suggested two ways in which JDI appeared to manage the legitimacy of Nova Nada: first, by attempting to decrease the legitimacy of the monks and their claims, and second, by increasing the perception of the company's own legitimacy. From the monks' perspective, much of the information communicated by JDI was misleading and full of half-truths. The analysis shows how the data supports the monks' claim in several ways. Although the focus in this part of the analysis is on symbolism and language, the data revealed some particular indicators of power, such as financial resources, delaying tactics, and selective information management (Pfeffer, 1982).

The Use of Power: Resources and Symbolism

JDI was able to utilize utilitarian power based on its material and financial resources and was able to utilize normative power based on its use of symbolic influence (Etzioni, 1964; Pfeffer, 1981). The financial resources of JDI allowed it to use its power and influence in ways that Nova Nada could not. For example, JDI could afford to hire a company to do sound tests, to hire a company to certify part of JDI's forest operations, and to pay for advertising in the media.

As described in the case, the monks said they had to wait over a year to meet with Mr. Irving. They also reported waiting for maps, schedules, and correspondence. For example, a letter dated January 22, 1998, from Nova Nada to JDI was not answered until March 5, 1998. In addition, alternative methods of logging in the second mile of the proposed buffer zone were not communicated until several months after the monks had left Nova Nada (JDI, 2000).

There were several examples of what appeared to be selectively released information. Although the company offered that harvesting would be "confined to approximately 5 weeks," with the "noisiest equipment only operating two weeks of the year" (letter, November 5, 1997), it neglected to mention the extra 7 to 8 weeks of noise due to other forestry activities associated with the actual cutting (e.g., road construction, chipping, hauling, planting, etc.). Another example was the offer of a 6-year no-cut period that was reported in both the media and on the JDI Web site (JDI, 1998b). In a press release (June 27, 1998), the monks pointed out, "Six years? First we've heard of it. A letter in hand from J.D. Irving says five. At the meeting the figure was four." Another example was the "2-mile silent buffer zone." Local headlines and a full-page ad in a provincial newspaper read "Irving to set 2-mile buffer zone around Nova Nada" (Irving & Hynes, 1997; Hatfield, 1997). The actual offer, however, was a 1-mile silent buffer with "limited harvesting activity" in the second mile. JDI also took out a full-page ad picturing all green trees in a 2-mile radius (*Chronicle Herald*, May 2, 1998). However, the monks had photos that showed that much of the area surrounding Nova Nada is made up of lakes, swamps, bog land, and other forest that was not cuttable. The company also appeared to be selective with some of the information that was sent to various stakeholders. An example of this was a letter and timeline (September 2, 1997) that was sent to all local Catholic parishioners, except the monks, despite the fact that they were a Catholic order in the diocese.

The company used quantification in much of its information. Quantification is often used to symbolize rational and objective information (Pfeffer, 1992). However, there is subjective variation in the following

local employment statistics communicated by the company to various stakeholders:

- ... 326 directly employed ... approximately 1500 people are indirectly employed (letter to woodlot owners, September 15, 1997)
- ... 700 people we employ in the local area (letter to monks, October 30, 1997)
- ... 326 directly and 1000 indirectly employed (JDI, 1998b)

There appeared to be other discrepancies among figures reported by the company. For example, a JDI regional manager was quoted in the media (*Chronicle Herald*, December 2, 1997) as suggesting that the second mile would employ 15 people; 9 months later, a company spokesperson claimed the second mile would employ 25 people (Flinn, 1998).

Another symbol of power is the selection of criteria that favor the interests of the organization (Pfeffer, 1981). JDI emphasized the economic necessity of cutting in the area surrounding Nova Nada. This is evident in the following excerpt from a letter to the monks:

As you are aware, more and more land is being taken out of forest production by the Government's response to public and environmental concerns. We cannot agree to have such an extensive piece of valuable forest land go completely unharvested when our own forest holdings supply less than half the volume of wood required for our mill in southwestern Nova Scotia. (April 15, 1998)

Whereas the above quotation stresses how the company is stretched to have enough wood to keep its mill going, the following quotation from a letter to local woodlot owners accentuates the company's role in supplying local sawmills: "Our company provides lumber from both our Crown license and our freehold property each year to surrounding independently owned, community-based sawmills. We are not just supplying ourselves (September 15, 1997). Excerpts from the company Web site, correspondence, and media articles highlighted the impact of the company and other resource-based industries on the local economy. For example, the Web site reported that local employment levels had quadrupled since the company arrived in 1988 and that \$18 million in local expenditures and payroll is contributed to the local economy each year (JDI, 1998b). The site also claimed that "the economy of southwestern Nova Scotia will always be driven by resource based industries such as ours. To think otherwise is but a dream. We need to do *whatever we can* [italics added] to support the growth of such industries" (JDI, 1998b).

In addition, JDI made it quite clear that any concessions had to be made within the context of the company's proposals. In Mr. Irving's words, "If there is an accommodation to be made within the context of *our* [italics added] current proposal, a meeting would be very useful" (letter, May 13, 1998). Although in several instances Mother Tessa had requested to meet one on one with Mr. Irving, he always brought at least three other people with him.

Language and Legitimacy Management

Another symbol of power can be the way that language is used to manage the legitimacy of the stakeholder (Pfeffer, 1992). For example, some of the language used by the company appeared to be ambiguous. Consider the following quotations from letters to the monks:

Wherever possible [italics added] we commit to using single grip harvesters. (October 30, 1997)

Harvesting operations will be confined to *approximately 5 weeks* [italics added] per year. (November 5, 1997)

. . . using *much quieter* [italics added] equipment. (April 2, 1998)

Another example was the "2-mile buffer" that was actually a 1-mile buffer with restricted cutting in the second mile.

JDI also used language that publicly claimed the company's openness and fairness in dealing with Nova Nada, while appearing to delegitimize the monks' claims. For example, in correspondence, the media, ads, and on its Web site, JDI claimed to have "made a genuine effort to be reasonable and responsive to Nova Nada" (JDI, 1998a). The company referred to its compromises as "proposed sincerely in good faith in order to achieve a fair and reasonable solution." On JDI's Web site, the supervisor of the JDI-owned local sawmill stated that the company has made the monks a "very generous offer" (JDI, 1998a). In a press release (September 21, 1998), JDI claimed, "We have demonstrated our willingness to work with Nova Nada through our 3 hour meeting at the Hermitage on August 28th and through a 3.5 hour helicopter tour on September 4th." The company described meetings with the monks as taking place in "an atmosphere of mutual respect and optimism." At the same time, the company described how "the monks have engaged the public in the debate, distributing petitions and seeking the media's cooperation in drawing attention to their concerns" (Hatfield, 1997).

The language used sometimes made the monks' claims seem unreasonable. One example is the following: "Some groups would prefer that the forests are never touched" ("The Facts," 1998). Another example is a JDI reference to "Nova Nada's demand for 'radical silence'" in a press release (September 21, 1998). In a media article, the spokesperson for the company said, "We have tried our best to accommodate them. Some days, quite frankly, I wonder who is David and who is Goliath in this story" (Flynn, 1998).

The company emphasized the necessity of the noise because the technical and capital-intensive nature of the operations necessitated the use of particular types of noisier equipment 24 hours a day. The JDI spokesperson was quoted in the media as saying that "contractors will lose money and become unemployed if Nova Nada gets what it wants" (May 7, 1998). The necessity of using the noisier equipment is further legitimated in the company's 1997 timeline that was sent to members of the local community: "The topography of the land combined with the make-up of these trees is such that fellerbuncher harvesting equipment (versus the quieter single grip harvester) is required." In addition, the company hired by JDI to carry out the sound test was quoted in the newspaper as saying that they "couldn't pick up any distinctive noise . . . that was significantly different from ambient noises like winds and leaves rustling" (Hynes, 1997).

JDI also appeared to legitimate the idea that there was already enough silent wilderness in the area: "It is not possible for us to set aside large tracts of our *private land* [italics added] for wilderness areas. . . . The Province has recently done so with Crown land in a large area adjacent to our timberlands and that area we believe adequately serves the public interest for wilderness area" (letter to monks, August 25, 1997). A similar letter was sent to local woodlot owners. The following quotes by two female JDI employees also seem to delegitimize Nova Nada's claims for silence and protected wilderness.

Another first was climbing into the cab of a single grip harvester. I was surprised at how low the noise level was as we stood off to the side speaking in normal tones.

And in the middle of tree harvesting, planting and road building we found a slice of heaven. A quiet spot located on the Tusket River where you can step back in time and imagine all that those ancient trees have seen (JDI, 1998a).

In addition, the monks were occasionally quoted out of context in regards to JDI's "responsible forest management."

Increasing Company Legitimacy

The data also suggested several ways that JDI appeared to increase the perception of its own legitimacy. One way in which this was done was by emphasizing the economic necessity of cutting in the area surrounding Nova Nada. This was described in the previous two sections. The company also provided a portfolio of examples of social and environmental responsibility on its Web site and in various media documents. These statements appeared to shift attention from Nova Nada to JDI's accomplishments in responsible forestry.

Being part of a recent woodlands tour I had the opportunity to see an osprey nest. It made me realize that protection and preservation of wildlife is an important factor to this company.

Another thing that struck me was how such a large machine can forge its path into the forest in such an unobtrusive manner. (JDI, 1998a).

It is a common legitimation tactic to use positive statements by spokespersons that provide endorsement and support of company activities (Elsbach & Sutton, 1992). However, all of the quotations on this Web site, with one exception (a local hardware-store owner), came from JDI employees.

Other examples of responsible forestry mentioned by the company included using selective cutting in over half of harvesting and going beyond compliance or beyond the levels set by its competitors. They emphasized that no other private company in Nova Scotia plants more trees than it does. A Canadian Council on Ecological Areas 1997 Award "for leadership in promoting sustainable ecosystem management" was highlighted. JDI also described seven protected sites, including a historical settlement, an old growth area, and a fresh water marsh (JDI, 1998c).

The company's public relations information also emphasized community initiatives and public participation. Several letters, press releases, media articles, and the JDI Web site had almost identical wording on the "good neighbor" theme. One section of the Web site was entitled "Part of the Community" and illustrated JDI's "active involvement in the communities." Specific examples included a community advisory group; the development of educational and recreational opportunities; the sponsorship of the local hockey team, local events, and local students in international environmental competitions; donations to the local university's sports complex; and tours to over 1,000 visitors each year. A company brochure described how JDI is "eager to encourage more open dialogue

and communication” and willing to “listen to the public carefully.” In addition, a letter to local parishioners read as follows: “We have been part of the community since 1988. In that time we have worked hard to be a responsible neighbor, sharing information about our operations with the public and a community advisory board that meets regularly” (September 3, 1997). In addition, the Irving Forest Discovery Network states the following:

We depend on . . . members of the public to let us know where the osprey or herons nest, where moose calve or rare plants grow, or where a waterfall provides a backdrop for a favorite picnic spot. *We’re committed to identifying and protecting all the special places* [italics added]. By working together we can plan effectively for the future of our forests. And we can make sure everyone’s needs are met—wildlife, nature-lovers, sports-people and foresters. *There’s room for everyone* [italics added]! (“The Facts,” 1998).

Again, much of the information highlights the company’s role in the local economy, employing local people, providing lumber to community sawmills, purchasing raw materials from local woodlot owners, and using services of local suppliers.

DISCUSSION

Our aim has been to contribute to the understanding of stakeholder identification and salience by illustrating how organizational power and legitimacy can influence stakeholder legitimacy and, specifically, by showing how a company can manage stakeholder legitimacy using a variety of legitimating activities. We also expand the idea of the contextualism of legitimacy in the company-stakeholder relationship.

The case of Nova Nada and JDI illustrates how a company can identify a potential or latent stakeholder and then through the use of utilitarian and normative power (e.g., impression management and rhetoric) manage the legitimacy of that stakeholder in such a way that the stakeholder gains little salience. The case supports the dynamic nature of stakeholder identification and salience, the idea that each stakeholder attribute operates on a continuum, and the idea that stakeholders change in importance to managers (Mitchell et al., 1997, p. 881). Although we agree that managers are ultimately determining stakeholder salience (Mitchell et al., 1997), current models of stakeholder identification and salience fail to sufficiently address the complexity involved in many company-stakeholder relations. For example, in addition to managerial characteristics and values as moderating variables (Mitchell et al., 1997), we have to consider the dynamic relationships between organizational power and legitimacy and each of

the stakeholder attributes of power, legitimacy, and urgency. After a general discussion, we provide several research questions that have emerged from the case study.

Stakeholder Legitimacy Management

There are two ways in which JDI appeared to manage the legitimacy of the Nova Nada monks and their claims. We acknowledge that managing stakeholder legitimacy might impact company legitimacy, and managing company legitimacy might impact stakeholder legitimacy. However, for analytical purposes, we explored these separately.

JDI appeared to manage the legitimacy of Nova Nada through the use of political language and symbolic activity. Words like “approximately 5 weeks,” “less noisy,” and “whenever possible” are strategically ambiguous; they do not provide the reader with specific, informative details. The specific use of language such as “slice of heaven,” “quiet spot,” and “ancient” to describe company-managed land and references to Nova Nada’s demands for “radical silence,” could be seen as an attempt to delegitimize Nova Nada’s need to provide silent wilderness retreats to society. The company also seemed to selectively advocate economic criteria over spiritual and ecological criteria. Language appeared to be targeted toward those groups with shared interests (Edelman, 1964; Pfeffer, 1981), such as employees, woodlot owners, and people directly dependent on the local economy. By stockpiling examples of its environmentally and socially responsible activities, JDI was perhaps able to divert attention from the controversial nature of the conflict with Nova Nada (Elsbach & Sutton, 1992; Meyer & Rowan, 1977). In addition, delaying tactics also might have been used to give JDI time to buffer its core activities from scrutiny through the appearance of legitimacy (Meyer & Rowan, 1977) and also to allow for time for Nova Nada’s support to diminish.

Our assessment of JDI’s stakeholder relationship with Nova Nada reveals that the company appeared to be more stakeholder controlling than “stakeholder serving” (Carroll, 1995; Starik, 1990). We next take a closer look at the local community as a salient stakeholder of the company.

Deconstruction of the “Good Neighbor” and “Gnat on the Rump” Stakeholders

The analysis partly supports the proposition that local community stakeholder interests appear to often be placed highest by companies. In this case, however, Nova Nada did not appear to be considered part of the community. Company communications emphasized that JDI was a “good

neighbor," a "responsible neighbor," and "part of the community" that was "sharing information with the public." However, Nova Nada did not appear to be included in the JDI neighborhood. Despite the fact that the monks had been living in the community long before JDI arrived in "the neighborhood," to the best of our knowledge, the company never approached the monks to introduce themselves or to discuss the impact that the logging activities might have on the monastery's livelihood. FSC certification requires that any stakeholder affected by logging operations be consulted beforehand and compensated for any losses resulting from such operations. Although the company did make some concessions to the operations of Nova Nada, from the monks' perspective, they were not offered any substantial compromises and no compensation. These neighbors of JDI say they experienced nightmares, insomnia, and mental anguish due to the noise caused by the forestry operations. JDI was definitely not a "neighbor of choice" (Burke, 1999). The monks' concerns did not appear to have much legitimacy, according to JDI's definition of legitimacy. In fact, they were largely ignored until they went to the press. The monks also felt that there was an unbalanced report of information that put them at a disadvantage and created distrust in the negotiation process.

Why was this "special place" not "identified and protected" as JDI promotes and promises in its communications? There appeared to be a loose coupling between espoused values and actions taken by the company regarding certain aspects of community responsibility. "Good neighbor" always seemed to be qualified, with the emphasis on economic community interests, particularly the company's service in employing local people. In other words, JDI wanted to "be a good neighbor, *while* [italics added] providing the benefit of direct jobs to our 300 employees" (Irving & Hynes, 1997). Most of the community involvement that is emphasized is also tied to economic contribution rather than to a broader role of a responsible community member. Many company contributions seemed to be examples of strategic philanthropy with quite obvious benefits to the company, such as their support of the local hockey team and tours for local school children. The company appeared to be endorsed and supported by those stakeholders who ensured its legitimacy.

Organizational legitimacy, local community perspectives on legitimate business activities, and broader societal perspectives on legitimate business activities can all influence managerial perceptions of stakeholder legitimacy. The monks largely relied on an institutional or moral legitimacy that was based on broad societal and ecological concerns. Some have suggested that the definition of "the public" tied to legitimacy is becoming increasingly global (e.g., Winn & Keller, 1999) and that the norms that govern managerial actions are institutionalized at both local

and global levels of society (Suchman, 1995). After all, the decisions of large companies such as JDI have side effects that are far reaching, across generations and across international borders. On the other hand, the company appeared to focus more on a localized and instrumental- or strategic-based legitimacy. JDI's legal rights appeared to trump any sense of duty to Nova Nada. Thus, the answer to the question of whether Nova Nada had legitimacy was "it depends." They had global legitimacy but perhaps not local legitimacy. Nova Nada's legitimacy did not appear to be recognized by the company or enough other dominant stakeholders (Mitchell et al., 1997). The "vow of silence" taken by the government in effect further legitimated the actions of the company. It has been suggested elsewhere that a secularized ethic has replaced church and state and other institutions as a basis for social and organizational legitimacy (e.g., Habermas, 1975; Richardson & Dowling, 1986).

This case highlights the conflicting legitimacies of economic priorities and spiritual, ecological values, or the increasing prioritization in our society of "profit sanctuaries" over wilderness and spiritual sanctuaries. Are hundreds of years of forestry in a region more legitimate than thousands of years of monastic contribution to society? Silence and wilderness were necessary for Nova Nada to exist, and the industrial noise and cutting threatened both of these resources. The company seemed to effectively manage the social legitimation of the ideas that the public interest for silent wilderness is already adequately served and that mechanized clear-cutting using noisy large machines and running machines at night are economic necessities. Nova Nada appeared to be simply a "demanding stakeholder" with no legitimate claim, a "mosquito buzzing in the ears" of the company (Mitchell et al., 1977, p. 875), or in the words of one of the monks, Father McNamara, "a gnat on the rump of JDI."

Implications for Stakeholder Research and Practice

Several research issues have emerged from this study. Although stakeholder theory has advanced through the recognition of the socially constructed, multilateral, and dynamic nature of stakeholder-company relations and stakeholder attributes (e.g., Frooman, 1999; Mitchell et al., 1997; Rowley, 1997), stakeholder frameworks continue to overlook the simultaneous influence of broader legitimation contexts, local legitimation factors, and company legitimating activities on stakeholder legitimacy. According to Mitchell et al. (1997), it is the interaction between stakeholder power and legitimacy that influences stakeholder salience. However, as illustrated in the case of JDI and Nova Nada, the interactions between organizational power and stakeholder legitimacy, and organiza-

tional legitimacy and stakeholder legitimacy, are also critical to stakeholder salience. These relationships between power and legitimacy need to be explored further, thus adding a bit more complexity to stakeholder identification and salience models.

Our analysis revealed that both organizational power and stakeholder power appeared to have an intimate relationship with stakeholder legitimacy. To be considered a legitimate stakeholder, the monks had to have power, illustrating more of an instrumental view of legitimacy. In other situations where there is a widely shared moral basis for legitimacy, legitimacy is more likely to encompass power, following an institutional approach to legitimacy. Research is needed to better understand when and why these different situations exist. Is the situation of JDI and Nova Nada a rare or unique case? Future research could compare and contrast cases in which other marginalized stakeholders have come into conflict with powerful companies, for example those stakeholders lacking size or prominence in a community.

The case illustrates the importance of context in company-stakeholder relations. The regionally based, downstream power of the company in either owning or supplying local mills; the private nature of the company; the resource-based nature of the industry; and the limited power of the monks, among other factors, all had an impact on stakeholder legitimacy. Common sense dictates that managers might be more stakeholder conscious when stakeholders are closer to the company, and differing stakeholder expectations would lead us to expect that institutional perspectives of legitimacy would apply more to public companies than to private companies. Perhaps, instrumental perspectives of stakeholder legitimacy are more applicable to private companies and institutional perspectives are more relevant to public companies. Future research could look at comparing company-stakeholder relations of public companies that serve regional areas (e.g., utility companies) with private companies that serve regional areas (e.g., JDI).

There appears to be a greater role for the application of institutional theory to company-stakeholder relations. It has been suggested that there is a need to study how larger institutional forces influence stakeholder interactions so that stakeholder interests are better balanced (Johnson-Cramer, 1999). For example, institutional theory could help us to better understand the rules and norms that relate to the legitimation of nontimber forest values at different levels of society.

The case of JDI and Nova Nada raises additional research questions. Are there stakeholder attributes in addition to power, legitimacy, and urgency that might be applied to a stakeholder salience model that might change the salience of stakeholders such as Nova Nada? What are other

situations in which local-community legitimacy is prioritized over a broader, global-societal legitimacy? What is the relationship between each of the following variables and stakeholder attributes: company size, the private versus public nature of a company, corporate governance, and the regional versus more international nature of a company?

Finally, as scholars of stakeholder theory, we have to continue to focus on the normative aspects of stakeholder legitimacy. It seems that many managers continue to be bounded by a perception of legitimacy with an instrumental, economic base, be it an obligation to maximize shareholder wealth or a focus on local community or other regional stakeholders. JDI defined legitimacy in a very local, instrumental, and economic way. Managers' perceptions of power and urgency are also bounded in an economic rationality. Managers continue to be trained and rewarded based on their prioritization of economic criteria. As a result, both stakeholder theory and practice continue to be bounded by a narrow economic rationality, and the concerns of marginalized stakeholders continue to be overlooked (Banerjee, 2000). More work needs to be done in the development of a normative theory of stakeholder salience. For example, how can we encourage managers of private companies to give more attention to more global, ecological, and spiritual concerns, and to "marginalized stakeholders" such as Nova Nada?

NOTE

1. The authors attempted to approach the company for an interview on two occasions, but the company did not respond to any of our correspondence.

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Cathy Driscoll received her Ph.D. in organizational behavior and marketing from Queen's University in 1994. Currently, she is an associate professor of management in the Frank H. Sobey Faculty of Commerce at Saint Mary's University. Her research interests include stakeholder management, legitimacy management, multistakeholder collaboration, forestry environmental issues, and management education. She can be reached via E-mail at cathy.driscoll@stmarys.ca.

Annie Crombie received her masters of business administration from Dalhousie University in 1999. Her concentration was in international business studies. She is currently providing strategic e-business consulting services with Intoinfo, Inc., in Ottawa. She can be reached via E-mail at acrombie@sprint.ca.

*The Design Dimensions of
the Just Organization: An Empirical Test
of the Relation Between Organization
Design and Corporate
Social Performance*

VIRGINIA WOODS GERDE

University of New Mexico

Corporations are experiencing external and internal pressures by various stakeholders to be socially responsible. Corporations that do not respond to these pressures and social expectations risk losing legitimacy. To address growing societal expectations of social performance, some corporations have adopted design features believed to be “ethical,” and consulting firms have promoted the use of “ethical design features.” However, the normative underpinnings of these design features and their effectiveness for corporate social performance (CSP) have not been adequately addressed. This study is one of the first to examine the relation between organization design and firms’ impact on society as measured by CSP.

Organization design includes both structural and processual elements and is a key determinant of CSP. Current theories of organization design take into account economic performance goals, but they fail to address the extraeconomic goals of CSP. Furthermore, little research has been done on the relationship between organization design and CSP. The few published studies that have been conducted focus solely on the efficacy of

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specialized boundary-spanning departments (e.g., corporate relations) in dealing with a firm's external constituencies. Currently, many texts and business publications provide a list of design features for a corporation to be more "ethical" or to improve its CSP, through, for instance, the use of ethics audits or ethics officers. However, based only on descriptions of what firms are doing and what the public and the government think are appropriate design features, the prescribed design features lack a theoretical and normative basis.

Although Freeman's (1984) stakeholder framework constitutes a major theoretical advance in incorporating ethical considerations into the construction of organization design, little has been done to develop specific, normatively based design principles for corporations. Normative design principles are based on ethical standards and prescribe how organizations ought to be designed to achieve certain substantive ends.

Justice, as an organizing principle, can be described as the value that best captures organizations' efforts to meet the needs of a wide variety of internal and external stakeholders. By addressing the distribution of costs and benefits, justice also addresses the main concerns of corporate social responsibility. The concept of justice aids in the consideration of (a) what stakeholders would want from an organization and (b) how an organization may distribute cost and benefits among stakeholders.

The general model of a just organization (Stephens, 1991) provides normative organization design principles based on Rawls's *A Theory of Justice* (1971) and consistent with Freeman's (1984) stakeholder framework. This study extends Stephens's model in two ways. First, it modifies the original organization design principles, establishes design dimensions with which to examine a corporation's organization design for social performance, and provides design features to operationalize these dimensions. Second, corporations are surveyed for the presence of particular design features, and the information is analyzed to empirically test the model and the modified design principles.

RESEARCH QUESTION

Corporations are surveyed for the presence of specific design features to determine whether corporations with design features similar to those of the ideal type of just organization have better social performance, as measured by higher CSP ratings, than those corporations whose designs deviate from the ideal type. The hypothesis being tested is that the more an organization emulates the ideal-type just organization, the better its social performance will be as measured by higher CSP ratings. The degree of

similarity of design with the ideal-type just organization is measured by the Euclidean distance, or summary distance metric, from the sample organization's profile to the ideal-type profile. The Euclidean distance from the ideal-type profile will be inversely related to the organization's social performance.

METHOD

Corporations were surveyed to determine the extent to which they embodied "ethical" design characteristics or those design features considered to be helpful in maintaining corporate social responsiveness and performance. The presence of these design features was used to rate each firm on the following design dimensions: structural configuration, human resources policies and incentives, control systems, strategic planning, and organizational ethos. These design dimensions were used to develop a profile for each firm. For example, the human resources policies and incentives design dimension was evaluated using information on the corporation's ethics hotline, open-door policy, ethics training programs, and employee participation on ethics committee or strategic planning. The control systems design dimension was assessed by the presence of the following two design features: (a) an ethics audit and (b) a compensation, evaluation, or incentive plan to promote ethical or socially responsible behavior.

Because each organization may vary in structure depending on stakeholder exposure, the characteristics of the corporate environment, such as size and industry, were taken into account as control variables. For example, mining companies bear a heavier environmental burden than do service industries such as banking.

The CSP score was calculated by summing the individual scores (ranging from 1 to 5) for seven of the subdimensions in the Kinder, Lydenberg, Domini, and Co., Inc., (KLD) social performance database. KLD rated each firm on seven areas (community, diversity, employees, environment, product, non-U.S. operations, and other). These individual ratings were added together with equal weighting for an overall CSP score.

In the systems approach, an ideal-type profile is compared to the profile of a sample organization. Deviations of the sample organization from the ideal-type profile are determined by measuring the "distance" from each organization's location in multidimensional space to the location of the ideal-type profile in the same multidimensional space, known as a Euclidean distance or a deviation distance. The deviation distance for each sample organization is then compared to the social performance measurement from the KLD database to test empirically the design-

performance relationship. A greater difference from the ideal-type profile, or larger deviation distance, is expected to be associated with poorer performance, or a lower overall CSP score.

Surveys were mailed to a member of top management, such as the general counsel or a vice president, for all 655 corporations in the 1998 KLD database. A total of 120 usable surveys were returned, for an 18.3% return rate. The distribution of size in the respondent population was similar to that of the overall population of firms in the KLD database. The average number of employees was 30,360, with the smallest firm reporting 148 employees, and the largest reporting 371,702 employees. The distribution of industries in the respondent population was similar to the distribution of industries overall in the KLD database. The one exception is that of the natural resources industry (e.g., chemicals, forest and paper products, mining, natural gas, and oil), which accounts for 14% of the entire database but 21% of the returned surveys.

RESULTS AND IMPLICATIONS

It was hypothesized that corporations designed around the value of justice would have better CSP ratings than those corporations that do not have the design features of a just organization. However, the results do not support this hypothesis. Deviation distance (distance from the ideal-type profile) did not correlate with CSP, nor did a regression analysis indicate that there was a relationship between CSP and deviation distance. Firms with more design features of the just organization did not have significantly higher CSP scores. A regression analysis including size and deviation distance accounts for only a portion of the variation.

When industry was considered, the deviation distance and the individual design dimension ratings still did not correlate significantly with the CSP scores. Regression analyses by industry on size and deviation distance indicated that variation was primarily accounted for by the size variable. Therefore, there was no indication that the organization design as expressed in this study was related to CSP. However, there may not have been a sufficient number of respondent firms within each industry category to show significant results because the number of respondents within each industry ranged from 4 to 25.

Although not originally hypothesized, the presence of specific "stakeholder-oriented" design features (e.g., an employee representative on the board of directors) was expected to be positively related to the individual stakeholder CSP dimensions (e.g., KLD's employee dimension). The presence of design features for inclusion and consideration of various

stakeholder groups should increase attention, regard, advisement, and compensation, as well as opportunities for voice and moral agency. The firms with more design features or those that included a particular stakeholder were compared to those with less of these features for a difference in CSP scores along the specific stakeholder dimension. Analyses indicate there is some association between certain design features and the ratings for individual stakeholder CSP dimensions.

Based on different macro-organizational context dimensions, such as industry or size, it was hypothesized that there may be equifinal ideal types. In other words, there would be several ideal-type profiles, still fitting the general model of the just organization and its design principles but varying for corporations depending on their industry and size—as predicted by contingency theory—largely because the stakeholder exposure varies among industries.

CSP scores did vary significantly among industries. This may be due to variations in the design dimensions that are likely institutionally determined, perhaps in response to industry regulation. For example, natural resource companies and utilities are more likely to have a formal code that addresses the firm's interaction with the environment. Drug and medical service companies are more likely to include in their credo the avoidance of harm to consumers than are computer and technology firms.

As would be predicted by contingency theory, size was significantly and positively related to three design dimensions: structural configuration, control systems, and strategic planning. This indicates that larger companies have more structural elements and formal processes or programs to address stakeholder concerns and issues of social responsibility than do smaller firms. Whether because the firms are large enough that they require the formalized structures and processes or because the larger firms are in the public eye more and so must have some signal that they are responsive to societal expectations, larger firms are more likely to score higher on the design dimensions and have a lower deviation distance. Although the firms may be closer to the ideal-type profile than smaller firms, the CSP scores are not necessarily better.

Why were firms with more of the design features of a just organization not rated higher as a group than those firms that had fewer of the design features? There are several possible explanations that center on two main problems. The first problematic area is the measurement of CSP. This area is relatively new (about 30 years old), and there is no one widely accepted way to measure CSP in the way that there are widely accepted accounting practices and financial measurements of economic performance. If cause-effect relations and standards of performance are unclear (as they are for social performance), social tests are used to determine

effectiveness. Upheld by consensus or authority, social tests gain legitimacy by who sanctions them. Therefore, in an institutionalized environment, organizations rely on such social tests to validate their effectiveness or performance.

A second possibility is that the design features themselves are in place because of external expectations or through institutional mimetic isomorphism (DiMaggio & Powell, 1983) and are not necessarily effective. If the design features are not effective, performance would not be affected by the presence or absence of these features.

CONCLUSION

Scholars in the business and society field have studied particular design features that are presumed to promote ethical outcomes for organizations. However, these design features have not been examined for, or derived from, normative justifications. This study is the first to test a model of how normatively based design principles may relate to the outcome of CSP. Although this study showed no direct association between the presence of design features identified for a just organization and CSP, it is a first step in refining and testing normative organization design principles as called for by Freeman (1994). Future research should illuminate the relationship between organization design and CSP, including design dimensions for social performance, CSP measurement, and design features for a just organization.

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Virginia Woods Gerde received her doctorate at Virginia Polytechnic Institute and State University, Blacksburg, Virginia. Her dissertation committee consisted of Richard E. Wokutch, co-chair; Carroll Underwood Stephens, co-chair; Jon M. Shepard; Larry Killough; and James Bishop. Dr. Gerde is now an assistant professor at the University of New Mexico. She can be reached via E-mail at gerde@mgt.unm.edu.

BOOK REVIEWS

Aseem Prakash. 2000. *Greening the Firm: The Politics of Corporate Environmentalism*. Cambridge, UK: Cambridge University Press. 181 pp., \$19.95.

Aseem Prakash's book, *Greening the Firm: The Politics of Corporate Environmentalism* examines firms' internal processes that lead to adoption or nonadoption of beyond-compliance policies. This book comes from work Prakash did as a Ph.D. student. Its roots are found in the author's experience, after having earned his MBA, at Procter and Gamble, where

The neoclassical economic theory and the various sophisticated financial and marketing techniques that I had learnt at my alma mater did not seem to have the desired relevance. . . . internal politics—inter-personal, inter-departmental, etc.—was important in shaping outcomes. Many projects that were pursued were clearly wrong and many “sensible” policies were not adopted. The strategies and power of key individuals mattered in shaping organizational outcomes. (p. xi)

Using new institutional (North, 1990; Ostrom, 1986) and stakeholder theories, the book seeks to shed light on why firms selectively choose certain policies and not others. Drawing from interviews, meetings, documents, and journals, Prakash examines 10 cases where either Baxter International Inc. (Baxter) or Eli Lilly and Company (Lilly) made decisions to implement or not implement what Prakash labels “Type 2” environmental policies. These policies concern underground storage tanks, the Toxics Release Inventory, green products, ISO 14000, “Responsible Care,” and environmental audits.

The author classifies environmental policies into four general categories, along two dimensions. The first dimension is whether the project meets or exceeds “profit criteria as stipulated in capital budgeting or some other established investment appraisal procedure” (p. 4). The second dimension is whether the policy simply meets compliance or goes beyond it. Prakash is interested in Type 2 policies: those that are beyond compliance but do not have established procedures to assess profitability, or those for which such procedures were not used. Firm adoption of Type 2 policies is posited to relate to external and internal factors, with the author's primary focus on processes internal to the firm:

The book focuses on the role of key managers in generating consensus or, if faced with opposition, lobbying the top management to mandate policy adoption. While not denying the importance of external factors, I highlight that in the context of Type 2 policies, managers have autonomy to interpret the impact of external pressures on the long-term profit and non-profit objectives. Hence, intra-firm politics is important in explaining variations in adoption within and across firms. (p. 6)

The reader is thus primed to learn not only of the regulations, environmental problems, and stakeholders connected to the environmental policies but is also primed to learn of the processes of leadership and power at Baxter and Lilly. The cases do meet many, but not all, of these expectations. For instance, the reader learns of external stakeholder interests in cases like the Toxics Release Inventory (TRI):

Not surprisingly, the initial TRI reports created adverse publicity for firms. Many environmental groups published rankings of leading polluters—"the dirty dozens"—in their states and counties. Managers within firms were also shocked to realize that their facilities were releasing significant volumes of toxic chemicals. (p. 71)

The regulations impacting or spurring consideration of beyond-compliance measures are discussed in every case, and it is important that Prakash distinguishes between existing regulation and regulation on the horizon. For instance, in discussing motivations for implementing "Responsible Care," the pressure to enact increasing regulations is described:

Industry leaders feared that such high levels of policy activism and the accompanying uncertainty would undermine investors' confidence in the long-term prospects of the chemical industry and hurt its stock process. Further, they argued that the ever-increasing compliance requirements would divert scarce resources from research and development, and eventually hurt the industry's international competitiveness. (p. 84)

Environmental problems are also described, as in the underground storage tanks (USTs):

USTs were constructed of bare steel, most of them were over ten years of age with approximately one-third being twenty years of age or more. Steel tanks often corrode non-uniformly and eventually leak through small holes known as "Holidays." In 1988, the EPA estimated that as many as 25 percent of all USTs were leaking. (p. 60)

The area in which expectations are not met concerns power and leadership processes internal to a firm. The cases, largely, give a broad-brush approach to these processes, without conveying the actual mechanics of power or leadership. Baxter's consideration of underground storage tanks provides an example. Prakash first describes the problems associated with USTs, then, policy dynamics are described:

Policy skeptics were concerned that Baxter was investing far too many resources in the UST program in terms of installing expensive new tanks, and expanding this program to facilities outside the US where such tanks were not required. Further, given the huge financial strain of Baxter's then recent merger with American Hospital Supply Corporation, the skeptics questioned the wisdom of such an expensive beyond-compliance program. Baxter, however, chose to adopt the more expensive route: install state-of-the-art tanks and extend this policy to its facilities all over the world. (p. 62)

Baxter implemented the policy in two stages: the first characterized as policy supporters seeking to "consciously involve Baxter's employees in various aspects of the program" (p. 62). In stage two, with Ron Meissen as head of an internal organization, this "signaled to the whole organization the high priority given by the top management to this program and bolstered the credibility of policy supporters on this issue" (p. 63).

About Baxter's power and leadership processes, Prakash states the following:

Power-based explanations are not helpful in explaining policy adoption because the UST program did not cause any significant conflicts either in Lilly or in Baxter. This program was adopted consensually and I attribute this induced consensus to active intervention of key managers who succeeded in convincing policy skeptics of the long-term benefits in incorporating Type 2 features in the UST program. Thus, leadership-based explanations are most appropriate to explain Baxter's and Lilly's responses. (pp. 66-67)

Although Prakash tells the reader that leadership forces explain Baxter's response, these forces are not shown. No key personalities are depicted, champions with strong visions are not articulated, and conversations are not relayed. We are told that Ron Meissen "enjoyed considerable credibility for his technical as well as inter-personal skills" (p. 63), yet there are no testimonies offered, no samples of his skills, and no detailing of the work he might have done to advocate for beyond-compliance with regard to USTs.

Policy supporters of USTs are identified and environmental legislation discussed, but the actual dynamics by which leadership was exercised are not apparent. At the heart of leadership and power are their indicators. Both leadership and power involve the existence of policy skeptics, policy supporters, and influence:

If such policies are adopted, it is by two kinds of processes: (1) power based, where policy supporters, in face of opposition from policy skeptics, “capture” the top management and have it mandate the adoption of such policies; (2) leadership based, where policy supporters succeed in inducing consensus, convincing policy skeptics and policy neutrals of the long-term benefits of such policies. (p. 8)

Thus, power is argued to be both the existence of policy skeptics and implementing the policy against the skeptics’ opposition. In addition, leadership involves both the existence of policy skeptics and gaining their support. Leadership at Baxter for USTs would therefore involve convincing policy skeptics to support removing USTs. Prakash describes this process in the following way:

Baxter treats every facility as a profit center; revenues and costs are separately calculated for every facility and capital expenditures are financed from facility budgets. As a result, facility managers have incentives to oppose expenditures which do not reduce their quantifiable costs. I therefore expect that these managers would have opposed the Type 2 features of the UST program. Policy supporters in Baxter anticipated this opposition and sought to overcome it by making UST removal a corporate-level program. Hence, expenditures for removing UST appeared non-rival to projects which a particular facility manager was promoting. . . . Hence it was a natural candidate for their support. (p. 69)

For me, the phrase “I therefore expect . . .” was confusing: Were there or were there not managers in opposition to USTs? From this statement, I presumed that the presence of skepticism is inferred from the structural position of the facility manager and is not measured by direct statement. This inference of policy supporters and skeptics is noted in the limitations section of the book. Prakash states the following:

In examining inter-manager interactions, the book classified managers as policy supporters and policy skeptics. Somewhat in the tradition of Samuelson’s (1947) “revealed preference,” it inferred managerial preferences for Type 2 policies from their behaviors. Methodologically, however, this is an imperfect way of assessing preferences since preferences and exhibited behaviors may not have direct correspondence. . . . Being conscious

of such pitfalls, I examined the reasons why managers support or oppose a given policy. During my interviews, I gathered information on the professional backgrounds of managers working on environmental issues across functional areas. . . . Many of these managers also claimed to be “environmentalists”: some of them claimed to support the Sierra Club and other environmental groups financially. I also observed posters on environmental issues adorning offices of most of these managers. Most of them are very active in Earth Day celebrations. Such a display of support for environmental issues and my numerous discussions with them leads me to infer that most of these managers indeed hold strong beliefs on environmental issues. Thus, I expect that such managers would support Type 2 policies. On the other hand, I also expect “losers” from any organizational change that results from a Type 2 policy to assume the roles of skeptics. (p. 158)

The degree to which policy supporters and skeptics were inferred from position and personal characteristics (e.g., supporting the Sierra Club) is not clear, but it does render more precarious the assignment of power or leadership. If power is defined as getting your way in the face of dissent, and dissent is not directly measured, how do we know that dissent actually occurred? Similarly, if leadership is assumed to be convincing dissenters to drop dissent, how do we know that leadership has occurred if dissent is inferred? How do we know if consensus has occurred? What were the behaviors used as surrogates? This is not clear.

Also problematic is the distinction between leadership and power. Leadership is defined to be instrumental: “Firms emerge only through the intervention of leaders who can convince other managers to reassess their assumptions and preferences regarding the costs and benefits of collective actions” (p. 138). This certainly could be argued for charismatic or visionary leadership, but it is also very close to the author’s own definition of power: “the ability of manager A to influence outcomes in wake of opposition from manager B” (p. 28). The key classification Prakash makes is based on whether dissent is erased or not. Methods by which dissent changed or was not present are not addressed in detail, thus leaving open the question of how leadership was truly employed. Also at issue is the argument of some power theorists that “the most effective and insidious use of power is to prevent such conflict from arising in the first place” (Lukes, 1974, p. 23; also see Habermas, 1971).

In sum, this book’s central energy, and appeal, derives from the cases. However, the cases do not illuminate the processes of leadership or power in such a way that make a compelling argument. Much is learned from the cases about regulations, stakeholder pressures, and damage from pollution; these imbue the cases with a richness that draws the reader through. Still, the theory is not convincing. It is not work in grounded theory, as the works of Sonnenfeld (1981) or Miles (1987) are. These authors studied

several firms' processes and identified key dimensions. Nor is Prakash's work an in-depth case study of Baxter and Lilly, like Kunda's (1992) study of culture. Political processes, often inextricable from leadership and power, are left out of consideration. The phrase "political space for 'discursive struggles'" is mentioned on a number of occasions (pp. 8, 138), yet discourse is not a part of this analysis—in fact, quotes are sorely missed. How do the managers make their arguments? What types of symbolic references are used to convince policy dissenters of a policy's efficacy? Quotes such as Marshall Abbey's, on page 100, would provide more insights into the thrusts and parries intrinsic to leadership and power.

Theoretical contributions from this book, I would argue, are limited. Even so, the cases are interesting and give the reader a sense of policies connected to USTs, TRI, green products, ISO 14000, "Responsible Care," and environmental audits. Students of environmental management and stakeholder processes will want to explore these cases. Most important, I think, the author does provide the reader with a provocative framework with which to contemplate firm processes. The ideas in play in Prakash's book are very relevant. Considering and describing firm processes as having nonquantifiable benefits that gain champions is not only of central importance to the natural environment but also to managers, environmentalists, communities, policy makers, and theorists. Throughout my reading of the book, I wanted to know more about the bases of leadership and power that would champion the nonquantifiable. Though I wasn't comfortable with the operationalization of the distinction between power and leadership, I nevertheless have returned to this idea and applied it to other firms to explore the fit. This bodes well for the book's ideas and for future work in this area.

—Stephanie A. Welcomer
University of Maine
welcomer@maine.edu

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Allan A. Kennedy. 2000. *The End of Shareholder Value: Corporations at the Crossroads*. Cambridge, MA: Perseus. 237 pp., \$25.00.

In his latest book, Allan Kennedy, who previously co-authored *Corporate Cultures* (1982) and *The New Corporate Cultures* (1999) with Terrence Deal, addresses the issues surrounding the business philosophy that has permeated American corporate governance (and many of the rest of the world's major corporations) over the past two decades: shareholder value. According to Kennedy, shareholder value

had its origins in accounting, when some academics pointed out that traditional accounting measures of performance like earnings per share (EPS) were not very good estimates of the true worth of a business. Instead, these academics argued for the use of discounted future cash-flow streams to gauge a company's value. The academics claimed that companies with these improved measures in place could manage themselves more effectively to produce higher-value for their shareholders—hence the notion of shareholder value. (pp. x-xi)

Kennedy believes that the shareholder value movement in American corporations, with its emphasis on short-term financial results, has exhausted its welcome. To justify this proposition, he has written this indictment of the shareholder value perspective dominating corporate strategy in the 1980s and 1990s. This book, consisting of four parts, first addresses the evolution of the purpose of the American business firm; second, addresses the genesis and impact of shareholder value as a managerial philosophy; third, addresses the responses of other key stakeholders (employees, government, suppliers, and customers) of the corporation to this shareholder focus; and, concludes with a blueprint for corporate governance realignment in a postshareholder-value business environment.

Kennedy begins his scholarship by tracking the origins and development of a number of the oldest industrial companies in Europe and America, including the British and Dutch company Unilever and American firms Gillette, Sears Roebuck, Dow Chemical, AT&T, H.J. Heinz, and General Motors. Relying heavily on recent business books focusing on the history of these companies (and, later, the more recently established firms), Kennedy concentrates on the entrepreneurial and familial nature of

their development over the years. His analysis concludes that the histories of these firms “suggests that wealth (at least huge accumulations of wealth) was a by-product of the success of the firms, not the reason they were started in the first place” (p. 4).

More recently, Kennedy evaluates firms begun shortly before and after World War II. These firms are technology-based enterprises, such as Polaroid, Hewlett-Packard, Digital Equipment Corporation, and Intel, or consumer mass merchandisers, such as Wal-Mart and McDonald’s. Founded by inventors and entrepreneurs, these companies were not family-based enterprises, although they often developed “family-like” cultural environments for their employees. These technocratic founders, often eschewing hierarchical management structures, instilled a meritocratic system of professional management in their organizations. Moreover, many of these entrepreneurs possessed a “social vision” to use the benefits of science and technology to improve consumers’ everyday lives. At their core, these companies were created to provide a living for their founders, to allow for greater personal autonomy, and to commercialize a product or idea. Consequently, these individuals, like those entrepreneurs before them, became wealthy as a by-product of their endeavors.

Since the 1970s, however, the creation of firms such as Microsoft, Nike, Oracle, and AOL has resulted in a new transformation in corporate culture. As the shareholder value ethic began to take hold in the 1970s among the investment banking community, the “corporate raider” philosophy of making a lot of money quickly took hold within American corporations. The founders of these firms had one primary goal in mind: to win and create as much personal wealth as possible. According to Kennedy’s analysis of the corporate environment of the 1980s and 1990s,

executive compensation schemes were adapted to include stock options for senior managers. With their pay tied to stock options, senior managers began to pay greater attention to stock price levels and manage their companies as though a higher and higher stock price was *the only legitimate objective of management itself* [italics added]. (pp. 44-45)

Kennedy focuses much of his analysis of shareholder values impact on the General Electric Corporation (GE), traditionally an electrical product manufacturer, under the leadership of Chairman and CEO Jack Welch. Since 1981, GE, a firm over a century old, has adopted shareholder value as the foundation of its corporate strategy. Following this managerial philosophy, GE has initiated massive downsizing of its staff, restructured its businesses so as to be positioned in faster growing and more profitable segments of the market, and acquired and divested itself of hundreds of

businesses. The result of these decisions made GE the largest market capitalization company in the world up through the mid-1990s. Under Welch's direction, GE's net earnings went from \$1.5 billion (1980) to \$9.3 billion; adjusted for inflation, this was an impressive average of almost 14% per year. Furthermore, the GE stock price soared 1,200% during this time frame.

Yet, Kennedy calculates that from \$5 billion to \$7 billion of GE net earnings increases during this time represent the 120,000 employee jobs eliminated during Welch's tenure. In addition, research and development (R&D) expenditures as a percentage of revenue declined from 3.0% in 1980 to 1.6% in 1998, a disappointing investment in the future of one of America's premier technology companies. In addition, Welch purchased \$30 billion of GE stock, which, while not helping to secure the future of the company does help to sustain a rising stock price level. It is interesting that GE's growth in earnings has been primarily due to its investment in financial services. GE Financial Services accounts for 40.6% of the GE parent company's profits, a level most investment analysts view as the limit of contributions by a financial subsidiary to its parent company. Kennedy concludes that GE has significantly reduced its costs (and human capital) and cut back on its relative R&D spending. Consequently, the company will likely find it difficult to maintain its level of steadily rising earnings in the future. That, however, will not be Jack Welch's problem. By 2001, he will have cashed in his GE stock options for between \$750 and \$1 billion. Kennedy also found that almost one third of the 100 largest market capitalization companies in America (including IBM, Boeing, K-Mart, and Procter & Gamble) followed GE's strategy in pursuing shareholder value maximization over the past 2 decades.

Kennedy also critically assesses the "new economy" of Internet companies. According to Kennedy, Internet firms such as Amazon.com and Yahoo have had their stock "hyped" in the marketplace—even though they have consistently shown over consecutive quarters and years to be money losers. For instance, Amazon.com's business model does not account for anywhere enough profit-per-sale potential to justify its outrageous stock prices. Nor does Yahoo's eventual profit potential justify its high stock market valuation. Kennedy sees many new economy companies as representative of the "shareholder value bubble." This nearly exclusive focus on shareholders, to the exclusion of other corporate stakeholders, is the fuel that has been driving the stock market to higher and indefensible levels in the 1990s, a symptom of the "mentality of get-all-you-can-as-fast-as-you-can" (p. 87).

Other important corporate stakeholders have been excluded from the shareholder valuation equation to which Kennedy has alluded:

employees, government, suppliers, and customers. Beginning with employees, Kennedy observes that shareholder-value-driven companies have downsized, outsourced, and restructured their operations through mergers and asset sales. The era of the lifetime employee has given way to millions of temporary and contract workers. Those workers who are highly trained in information technology and who hold MBAs, however, have been positioned to exploit the market-based job environment with a vengeance. In addition, to attract this high-priced talent, firms are now offering a variety of work-life programs (child care services, job-sharing programs, etc.) as further enticements. Moreover, many professionals began using third-party agents (attorneys) to negotiate compensation packages. As a consequence of these new employment rules being written, the corporate and industry identity of many highly skilled employees has now given way to a professional reference point.

Over the past couple of decades, government, at the national, state, and local levels, has been competing fiercely to attract new corporate facilities. This economic development environment has provided companies like Boeing, Chrysler, IBM, and MCI with a range of public multimillion-dollar direct subsidies, which include grants, employee-training programs, tax write-offs, export-promotion assistance, venture capital funds, and infrastructure improvements to attract new investment and jobs to a community. In some instances, firms simply move into a new site and 18 months later are sold or relocate again. Economists note that, in general, paying such incentives “is essentially a zero-sum game (or even, as economist Dick Netzer would argue, a negative-sum game) for society once all of the economic effects of the incentive programs are taken into account” (p. 113). Although Kennedy cites Ireland as an example where this strategy has paid off, Europe and a few states in the United States recently have instituted a range of corporate performance protections (including rescission terms, clawback provisions, penalty clauses, and recalibration provisions) in contracts to safeguard the position of the government in these types of dealings. In addition, the European Union in 1997 established guidelines on state aid to industry to “lessen the distortions of competition caused by aid” (p. 123). Moreover, there is a movement among European economic development officials to significantly reduce the use of subsidies to attract industry.

Over the past 20 years, American suppliers, under pressure from powerful customers adopting such Japanese management techniques as just-in-time (JIT) inventory control practices (thus reducing inventory costs as an expense on financial statements), have found themselves forced to lower their prices. General Motors (GM) squeezed Dana Corporation, a major auto component supplier, to reduce its costs throughout the

late 1980s and early 1990s, causing devastating negative consequences for Dana's net income by the early 1990s. Yet from the mid-1990s onward, many auto industry suppliers strengthened their negotiating positions through mergers and acquisitions of their own. For many major firms, such as GM, a new emphasis on customer-supplier relations has evolved in the latter part of the 1990s. Now, partnerships involving shared information and ideas for problem solving have arisen. For many suppliers, such as Dana, profit margins have increased significantly since the mid-1990s.

The shareholder value movement has also affected the American consumer. Many corporations have reduced consumer choice among products. For example, McKinsey & Co., a major management consulting firm, reports that Procter & Gamble "eliminated almost a quarter of the variety of its brands between 1991 and 1994" (p. 144). Reportedly, this consumer brand consolidation could bring the operating margin up from between 5% and 7% to 16%. Home Depot, another example cited, has initiated differential pricing among its retail outlets based on local competitive environments. In addition, Wal-Mart's business practices have been intensely criticized, ranging from its minimum wage and little or no health benefits for employees to its importing of products from Third World countries where there is evidence of child labor practices. However, consumers have responded to these changing business practices: Surveys show that brand loyalty is at an all-time low. According to a 1997 Roper survey, 73% of consumers are now purchasing on the basis of price (p. 151). The growth in the Internet will only intensify this consumer price emphasis. Consumers have also responded to shareholder-value-driven corporations by supporting movements for environmental protection, minority hiring and purchasing, animal rights, and child labor movements through the threat of boycotts.

As documented above, shareholder value has resulted in a number of changes in stakeholder perspective. This perspective is unlikely to change. From the corporate perspective, says Kennedy, shareholder value took hold for two major reasons: First, the notion of shareholder value was powerful and extremely useful, because it could easily be measured. Second, with the adoption of stock-option-based incentive pay for managers, there was a convergence of interests for both managers and investors (p. 164). Shareholder value, or picking the right discount rate to apply to future cash flows, has thus fueled the short-term perspective of American management over the past 20 years. Who does Kennedy blame for the shareholder value ethic taking hold among so many American companies? He blames managers, primarily, but compliant boards of directors

and long-term institutional investors have been happy to benefit from a booming stock market.

After the shareholder value movement expires, Kennedy believes that enlightened management and boards of directors will need to reconnect with essential stakeholders to improve the long-term prospects of the corporation. This corporate realignment will not involve creating wealth but building wealth for the long-term success of the corporation and its stakeholders. Kennedy recommends a strategy that will include increasing spending on R&D, investing in strategic human capital, opening facilities for local community use, developing a code of conduct to guide dealings with governments, taking equity stakes in key supplier companies, and launching customer loyalty programs. In addition, for the long-term success of the corporation, communicating with long-term institutional investors less prone to high levels of portfolio churning will be beneficial. Kennedy also emphasizes the need to change the managerial decision-making process to focus on the long-term and the need to develop performance measures (measuring, for example, customer satisfaction, employee turnover, and community impacts) that report these results (in addition to the use of conventional accounting measures).

Kennedy concludes his book by recommending a list of changes to transform the board of directors of publicly traded companies. He briefly outlines the areas of reform and proposals suggested over the past decade or so. Kennedy believes that directorships need to be real jobs that require from one third to one half of a director's time. Such directorships would need to be adequately compensated; bans on appointing directors from existing CEO's of large public companies would need to be established, and no director would be able to serve on more than three boards simultaneously. Kennedy would also limit the board size to between six and eight directors and would limit the number of insiders to two nonvoting members (CEO and CFO); he would also include two or three members of the board to represent the interests of major stakeholders, that is, suppliers, communities, customers, and employees. Thus, these boards would then be focused on a sustainable corporate future that includes stakeholder considerations and reports annually to shareholders on specific actions to meet long-term goals for building wealth. One of the first jobs of such a board, recommends Kennedy, would be to alter the present compensation package for executives so that their stock incentives are exercised well after a manager has left his position with the firm.

Kennedy has written an eminently readable, thought-provoking book that asks the reader to choose between two approaches to managing corporations: one characterized by a vested interest in building wealth in an organization whose benefits are shared among the stakeholders respons-

ible for maintaining the environment for it to flourish in the long term or a portfolio approach to managing firm assets to meet the short-term demands of shareholder and market analyst expectations of creating wealth. For students of management, the answer is obvious: Corporations have a broader institutional mandate in American society. In the longer term, significant relationships with primary stakeholders, not simply with overwhelming managerial focus directed to shareholder needs, are a necessary ingredient to ensure organizational success.

As Kennedy so aptly points out, the concept of shareholder value has the simplistic appeal of gauging the "success" of an enterprise based on one economic indicator of wealth creation. Over the past decade, the stock market (especially the NASDAQ) has evolved into what more closely resembles a casino rather than a market exchange representing the fundamental, long-term prospects for the American economy. The stock market can have a strong, positive effect on reigning in corporate executives and boards of directors who have mismanaged the prospects for future economic success of a firm. Yet, this stock price effect needs to be mitigated by concerns for the firm's purpose of building wealth as a sustaining entity in the economy. Kennedy is correct when he posits that companies are designed for the long run. Managers and boards are stewards who are responsible for building the prospects of a company to benefit the shareholders and primary stakeholders necessary to continue this growth process. Those economic benefits generated by the corporation need to be distributed in ways to ensure stakeholder support for the organization and the capitalist system.

The "shareholder value bubble" that Kennedy describes began deflating shortly after the publication of his work. The tech-heavy NASDAQ composite index, with its new economy information technology companies, hit its all-time high on March 10, 2000. One year later, on March 9, 2001, the NASDAQ closed at 2,053: a full 60% decline! Overhyped Internet firms such as Etoys, Pets.com, Boo.com, Gazonite.com, and Go.com all have declared bankruptcy. As one business journalist noted, "By and large, the stories are markedly similar: massive (financial) losses; massive layoffs; overextended marketing campaigns that never brought in the customers; a collective failure to accurately foresee changing market conditions" (Glasner, 2001). One might ask where the management was for building wealth in these firms. Obviously, they were not employed by these firms. After this technology meltdown, who is left holding the bag? According to Michael C. Perkins, a founding editor of *Red Herring* magazine, and Celia Nunez, an author and journalist, the small retail investor (Perkins & Nunez, 2001). Why? "Because the insiders—entrepreneurs, venture capitalists, investment banks, and large institutional investors—

pulled out their capital long before the fall, leaving mom and pop investors holding the bag,” say Perkins and Nunez (p. A25).

For many American corporations, a new alignment will require renegotiating a new social contract with stakeholders. This social contract, built on mutual dependence, respect, and trust, will require a change in the type of executive leading corporations—one with the talent to manage for multiple constituencies. Whereas the shareholder remains the primary stakeholder, the importance of partnerships and networks in the business environment will highlight the key nature of other primary stakeholders in the long-term success of the corporation. Kennedy’s emphasis on the transformation of the board of directors cannot be understated; boards are an underutilized resource for long-range strategic planning and can be especially useful for encouraging stakeholder relations. Although Kennedy recommends the inclusion of directors representing the major interests of stakeholders, this suggestion, which was trumpeted by activist Ralph Nader in the late 1970s when he was recommending federal incorporation, remains an inherently flawed concept. Directors, as stewards of the corporation, should be concerned with what is best for “a sustainable corporate future” and not for a special interest. Expanding the pool of eligible potential directors to include talented individuals who have experiences with or as stakeholders, especially those considered primary for a specific firm, would enhance the perspective of a firm’s board.

Kennedy states that his recommendations are “not an argument for the stakeholder view of the world” (p. 206). His view of stakeholders (less theoretical and more instrumental) as important to the long-term success of the corporation is based on pragmatic considerations in line with postshareholder-value managerial thought. According to Kennedy, “The market is working quite well to regulate the relationships among various stakeholders. It is working so well, in fact that corporate managers should take heed, or they will be overwhelmed by the forces set in motion against them” (p. 206).

—*Thomas A. Hemphill*
George Washington University
vhemphill@earthlink.net

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