A STRATEGIC MARKETING EXAMINATION OF STAKEHOLDERS, CUSTOMER SATISFACTION, AND PERFORMANCE OF FIRMS EMBEDDED IN MULTI-ENTITY SUPPLY CHAINS

By

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ABSTRACT

A STRATEGIC MARKETING EXAMINATION OF
STAKEHOLDERS, CUSTOMER SATISFACTION, AND PERFORMANCE
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In today's competitive business environment, firms are increasingly adopting a stakeholder approach to doing business, where they seek to create value to multiple stakeholders. Interestingly, for the most part, researchers in the marketing field have been slow to respond to this trend, concentrating almost exclusively on the customer as the sole stakeholder group. To thoroughly understand how attending to the needs of multiple stakeholders influences marketing phenomena, this three-essay dissertation examines the importance of primary stakeholders (i.e., customers, employees, suppliers, shareholders, communities, and regulators) across multiple levels and focus areas.

Essay 1 examines whether a stakeholder-focused approach to developing marketing strategies is more effective than a market-driven one. A multilevel model of the relative influences of the firm, strategic group, and industry effects on firms' market performance is developed. Emphasis is placed on two sets of strategic groups derived from classical marketing strategy along with the recent marketing strategy focus on stakeholders. The model is tested using data obtained from the Kinder Lydenburg Domini Statistical Tool for Analyzing Trends in Social and Environmental Performance and Standard & Poor's Compustat North America databases, involving 1,716 firms over a four-year period. The results reveal that, in general, placing more emphasis on a broad set of stakeholders when developing marketing strategies is relatively more important for

market performance than adopting a more limited, market-driven focus which concentrates on customers, employees, and suppliers, while paying comparatively less attention to shareholders, communities, and regulators.

Essay 2 studies the antecedents and consequences of a focal firm's stakeholder focus (i.e., the amount of attention, resources, and time the firm devotes to addressing the interests of multiple stakeholder groups). The conceptual model was tested with secondary data obtained from four different databases spanning the years of 2004 to 2007. The results indicate that the stakeholder focus of the focal firm's business-to-business customers, primary suppliers, and major competitors has a direct or moderated effect on the focal firm's stakeholder focus. In addition, an inverted U-shaped relationship is found between aspects of the focal firm's stakeholder focus and customer satisfaction. This implies that stakeholder management is a zero sum game – where if the goal is to satisfy the customers, it may be achieved at the expense of other stakeholders.

Essay 3 studies the effects of organizational learning about stakeholders on the firm's responsiveness and on the extent of innovation and imitation of stakeholder practices. The hypotheses were tested with data obtained from 349 marketing and supply chain executives representing the strategic business units (SBUs) of 285 firms across all economic sectors. The results indicate that four organizational learning processes (i.e., knowledge acquisition, information distribution, information interpretation, and organizational memory) have a direct effect on stakeholder-focused responsiveness. In addition, while experiential knowledge acquisition is related to innovative stakeholder practices, vicarious knowledge acquisition is related to imitative ones.

To my parents,
Agnes Mercado and Luis Mena,
for their continued support

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INTRODUCTION

> "The strength of a company is often measured in the kinds of relationships it develops with its customers, employees, suppliers and communities. [...] a commitment to strong and dynamic relationships remains an important element of conducting business" (Lockheed Martin 2009).

In today's highly competitive business environment, the stakeholder relationships a firm develops and maintains are critical to its success, as the opening quotation suggests. As a result, firms are increasingly adopting a stakeholder approach to doing business, where they seek to create value to multiple stakeholder groups. Specifically, a stakeholder refers to "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman 1984, p. 46) and includes customers, suppliers, employees, and shareholders (Clarkson 1995). The significance of this widespread attention to stakeholders is further illustrated by the proliferation of rankings in the media that evaluate firms based on how effectively they deal with their stakeholders (e.g., *Fortune* magazine's "World's Most Admired Companies," *Business Ethics*' "100 Best Corporate Citizens," and *Forbes*' "America's Most Reputable Companies").

Surprisingly, even though the practical reality reflects that firms are increasingly paying attention to multiple stakeholders, for the most part, researchers in the marketing field have been slow to respond to this trend (e.g., Ferrell, Gonzalez-Padron, Hult, and Maignan 2010). For example, despite the fact that early advocates of market orientation stressed that a firm's market orientation not only includes efforts directed at customers, but also at a broader set of stakeholders since these additional groups may have an effect on the firm's long-term performance (e.g., Narver and Slater 1990), research in this

stream has mostly maintained a narrow focus where interest has laid on the customer as the sole stakeholder group.

To investigate how inclusive marketing studies have been of the different stakeholder groups, an extensive literature review of articles addressing stakeholder groups in the top marketing journals – *Journal of Marketing*, *Journal of Marketing Research*, *Journal of Consumer Research*, *Marketing Science*, *Journal of the Academy of Marketing Science*, *Journal of Retailing*, *International Journal of Research in Marketing*, and *Journal of Public Policy and Marketing* – was conducted for the period of 1985-2009. The search focused on the primary stakeholders, who are those that are essential for the firm's survival and continued market success, and normally consist of customers, suppliers, employees, regulators, shareholders, and the local community (Clarkson 1995). As can be noted from Table 1, the vast majority of the papers in this review concentrate on one or two stakeholders individually, while very few (e.g., Greenley and Foxall 1998; Maignan and Ferrell 2004) study multiple stakeholders simultaneously. Hence, given the growing importance of stakeholder relationships and the lack of marketing studies capturing this practical reality, it is imperative to examine from a holistic perspective the marketing implications of paying attention and responding to the demands of multiple stakeholder groups.

TABLE 1

A Sample of Marketing Articles Addressing Stakeholder Groups

Author(s)	Context	Stakeholder(s) Addressed	Key Insights
Kohli (1985)	Empirical study of 114 salespeople from three companies manufacturing and selling industrial products	Employee	Contingent approving supervisory behavior leads to greater role clarity, self-esteem, job satisfaction, and instrumentality, which encourages salespeople to work harder.
Hutt, Mokwa, and Shapiro (1986)	Conceptual research about the parallel political marketplace	Regulator	As firms undergo increased pressure and regulation from government agencies, the development of multiple constituency-based marketing strategies becomes more important.
Garrett (1987)	Study involving boycotts directed at allegedly improper marketing policies of target organizations	Community	When confronted with a boycott, firms must evaluate the boycott's pressure potential (both economic and image) and determine how committed they are to the policies the protest groups desire to change.
Day and Fahey (1988)	Conceptual research about value-based planning approaches	Shareholder	Value-based planning approaches, which incorporate factors used by shareholders, are changing the way companies allocate financial resources and marketing decisions are made.
Varadarajan and Menon (1988)	Conceptual research about cause-related marketing	Community	Important managerial and social dimensions of cause-related marketing are identified.
Kohli and Jaworski (1990)	Field research of 62 marketing and nonmarketing managers in industrial, consumer, and service industries	Customer Employee	Definition of market orientation is set forth: "the organizationwide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organizationwide responsiveness to it."
Narver and Slater (1990)	Empirical study of 140 strategic business units consisting of commodity products businesses and noncommodity businesses	Customer Employee	Customer orientation – "the sufficient understanding of one's target buyers to be able to create superior value for them continuously" – is identified as a behavioral component of a market orientation. In turn market orientation has a positive effect on profitability.

TABLE 1 (CONT'D)

Author(s)	Context	Stakeholder(s) Addressed	Key Insights
Jaworski and Kohli (1991)	Empirical study of 150 automobile retail salespeople	Employee	Positive feedback that focuses on salespeople's behaviors seems to have the strongest total effect on job satisfaction relative to other types of supervisory feedback, whereas positive output feedback has the strongest total effect on performance.
Buchanan (1992)	Empirical study involving the relationship between a department store and its suppliers (buyers provided information on 2,310 suppliers)	Supplier	Whether vertical trade relationships benefit the firm depends not only on the value of the trade partners' resources, but also on their willingness to work with the focal partner; symmetric high dependence relationships provide advantages to both firms, whereas in asymmetric relationships, dependence represents a tradeoff.
Skinner, Gassenheimer, and Kelley (1992)	Empirical study of 226 farm and power equipment dealers	Supplier	Cooperation leads to more satisfying supplier-dealer relationships, while conflict reduces satisfaction.
Webster (1992)	Conceptual research centered on the changing role of marketing in the corporation	Customer Supplier	The changing role of marketing in the corporation requires organizations to place increased emphasis on customer value and relationship management.
Deshpande, Farley, and Webster (1993)	Empirical study of 50 quadrads of major Japanese firms and their key customers	Customer	Customer orientation, defined as "the set of beliefs that puts the customer's interests first," is positively related to business performance.
Jaworski and Kohli (1993)	Empirical study of two national samples (sample 1: 222 business units; sample 2: 230 American Marketing Association members)	Customer Employee	Market orientation is positively associated with business performance, regardless of the market turbulence, competitive intensity, or the technological turbulence of the environment in which it operates.
Day (1994)	Conceptual research of the capabilities of market-driven organizations	Customer Supplier	Market-driven organizations possess superior outside-in capabilities, specifically market sensing and customer linking capabilities, which allow them to anticipate and respond to changing market conditions ahead of competitors.

TABLE 1 (CONT'D)

Author(s)	Context	Stakeholder(s) Addressed	Key Insights
Bloch (1995)	Conceptual research about product design	Regulator Customer	The ideal design of a product must adhere to all applicable regulations, complement other elements of the marketing program, and meet cost targets.
Drumwright (1996)	Study about company advertisements with social dimensions	Community	Advertising campaigns with social dimensions that reflect company-cause compatibility are highly effective in achieving company-oriented goals.
Hartline and Ferrell (1996)	Empirical study of 279 hotel units consisting of 236 managers, 561 customer-contact employees, and 1,351 customers	Employee Customer	The use of empowerment has both positive and negative employee outcomes; managers' use of behavior-based employee evaluation leads indirectly to reduced role ambiguity and increased job satisfaction; employee self-efficacy and job satisfaction increase customers' perceptions of service quality.
Menon and Menon (1997)	Conceptual research about enviropreneurial marketing strategy	Regulator	The greater the regulatory and other political intensity, the higher the level of *enviropreneurial* marketing within the firm.
Greenley and Foxall (1998)	Empirical study of 230 managing directors/CEOs of UK companies in diverse industries	Customer Employee Shareholder	Stakeholder orientation is not associated to performance; however, the different types of orientations (i.e., consumer, competitor, employee, and shareholder orientations) are associated with different measures of performance.
Kerin and Sethuraman (1998)	Empirical study of publicly held U.S. consumer goods firms	Shareholder	There is a positive relationship between a firm's accumulated brand value and shareholder value.
Srivastava, Shervani, and Fahey (1998)	Conceptual study on the marketing-finance interface	Shareholder	Call for a broadening of marketing's traditional external stakeholders to explicitly include the current and potential shareholders of the firm. Authors propose that market-based assets such as customer relationships, channel relationships, and partner relationships influence shareholder value.

TABLE 1 (CONT'D)

Author(s)	Context	Stakeholder(s) Addressed	Key Insights
Handelman and Arnold (1999)	Empirical study of 216 mall shoppers	Community Customer	Marketing actions with a social dimension increase consumer support for the organization.
Jap (1999)	Empirical study of 220 matched supplier-buyer dyads, where the buyers were from a *Fortune* 50 manufacturing company	Supplier	The process of collaboration across organizational boundaries is identified as a critical system resource, with coordination efforts and idiosyncratic investments leading to enhanced profit performance and competitive advantages.
Barone, Miyazaki, and Taylor (2000)	Empirical study about cause-related marketing tested on undergraduate business students	Community Customer	A company's support of social causes can affect consumer choice.
Cannon and Homburg (2001)	Empirical study of 478 manufacturing firms in the U.S. and Germany	Supplier	Increased communication frequency, supplier accommodation, product quality, and the geographic closeness of the supplier's facilities lower customer firm costs.
Sawhney and Zabin (2002)	Conceptual research involving the network economy	Customer Supplier Employee	Relational equity is not limited to relationships with customers but also includes relationships with all key stakeholders with which the firm relates, including partners, suppliers, and employees.
Banerjee, Iyer, and Kashyap (2003)	Empirical study of 243 managers from a diverse range of firms and industries in North America	Regulator	Regulatory forces influence top management commitment across all industries. In addition, regulatory forces have an impact on the firm's environmental corporate strategy.
Ramaswami and Singh (2003)	Empirical study of 154 industrial salespeople from a *Fortune* 500 firm	Employee	The job satisfaction of salespeople is shaped mainly by interactional fairness, rather than by procedural or distributive fairness.
Selnes and Sallis (2003)	Empirical study of 315 customer-supplier dyads	Supplier	The learning capability of a customer-supplier relationship has a strong, positive effect on relationship performance.

TABLE 1 (CONT'D)

Author(s)	Context	Stakeholder(s) Addressed	Key Insights
Maignan and Ferrell (2004)	Conceptual research centered on corporate social responsibility	Customer Supplier Employee Shareholder Community Regulator	Call for marketing researchers to expand the scope of marketing beyond the stakeholder groups of consumers and channel members.
Roy, Sivakumar, and Wilkinson (2004)	Conceptual research centered on innovation generation at the dyadic, supply chain context	Supplier	Innovation generation in supply chain relationships, both incremental and radical, is an outcome of interactions between buyers and sellers.
Mithas, Krishnan, and Fornell (2005)	Empirical study of large U.S. firms	Customer	Customer relationship management applications help firms acquire customer knowledge, which in turn helps firms improve their customer satisfaction.
Qu and Ennew (2005)	Study of 16 top managers from hotels and travel services in China	Regulator	In China, excessive government regulation with respect to competition appears to be an obstacle to the development of a market orientation, while the lack of regulations emphasizing product quality and consumer protection seems to discourage activities related to market orientation.
Christen, Iyer, and Soberman (2006)	Empirical study of 177 observations from a U.S. grocery retailer (consisting of data from the retailer, district managers, and store managers)	Employee	Corporate profit-sharing plans have positive effects on both effort and job satisfaction; fixed compensation has a significant, positive effect on an employee's job satisfaction, but not on effort.
Luo and Bhattacharya (2006)	Empirical study of *Fortune* 500 firms (452 firm-year observations across 113 firms)	Shareholder Customer	Customer satisfaction partially mediates the relationship between corporate social responsibility and firm market value.

TABLE 1 (CONT'D)

Author(s)	Context	Stakeholder(s) Addressed	Key Insights
Luo and Donthu (2006)	Empirical study of large publicly traded *Fortune* 1000 companies	Shareholder	Marketing communication productivity has an inverted U-shaped influence on shareholder value.
Madden, Fehle, and Fournier (2006)	Empirical study of a stock portfolio of firms with a proven emphasis on branding	Shareholder	Strong brands create value for their shareholders by delivering returns that are greater in magnitude than a relevant market benchmark, and they do so with less risk.
Sen, Bhattacharya, and Korschun (2006)	Empirical study involving the actual donation made by a *Fortune* 500 consumer-packaged goods company to a large public university	Employee Customer Shareholder	Corporate social responsibility activity has the potential to increase the intent of stakeholders to commit personal resources such as money and labor to the benefit of a company.
Sorescu, Shankar, and Kushwaha (2007)	Empirical study of 419 software and hardware new product preannouncements	Shareholder	In the long run, new product preannouncements have a significantly positive effect on shareholder value.
Brown and Lam (2008)	Meta-analysis consisting of 28 studies and a cumulative sample size of 6,680	Employee Customer	Employee job satisfaction leads to customer satisfaction and perceived service quality.
Darke, Ashworth, and Ritchie (2008)	Empirical study about corrective advertising tested on college students and on broader samples of consumers	Regulator Customer	Regulator endorsements are effective in combating the negative side effects of corrective advertisements.
Fang, Palmatier, and Evans (2008)	Empirical study of 188 manufacturers across different industries	Supplier Customer	Customer participation improves suppliers' new product development process by enhancing information sharing and customer–supplier coordination.

TABLE 1 (CONT'D)

Author(s)	Context	Stakeholder(s) Addressed	Key Insights
Jones, Taylor, and Bansal (2008)	Empirical study using three different samples (sample 1: 225 employees of a large organization in Eastern Ontario; sample 2: 123 patrons of two sports facilities; sample 3: 260 respondents from an online panel)	Employee Customer	Commitment to service employees helps build customer commitment to the service organization.
Kumar, Venkatesan, and Reinartz (2008)	Two field experiments in the high-technology and telecommunication industries	Customer	Adopting a customer-focused sales campaign can significantly increase financial returns and can also improve the relationship quality between the customer and the firm.
Maxham, Netemeyer, and Lichtenstein (2008)	Empirical study of three matched samples of 1,615 retail employees, 57,656 customers, and 306 stores of a single retail chain	Employee Customer	Employees that feel they are being treated fairly by their employer not only perform better, but also influence customer evaluations.
Rao, Chandy, and Prabhu (2008)	Empirical study of the U.S. biotechnology industry	Shareholder Customer	The new ventures that gain the most from product introductions are those that adopt strategies that give them legitimacy in the eyes of important stakeholders.
Homburg, Wieseke, and Bornemann (2009)	Two empirical studies in the context of German travel agencies	Employee Customer	Frontline employees' degree of customer need knowledge (CNK) is positively associated with the levels of customer satisfaction and willingness to pay.
Homburg, Wieseke, and Hoyer (2009)	Empirical study of German travel agencies	Employee Customer	The degree to which employees identify with a company is positively related to the degree to which customers identify with the company. Such level of customer-company identification increases the customer's willingness to pay, which in turn improves financial performance.

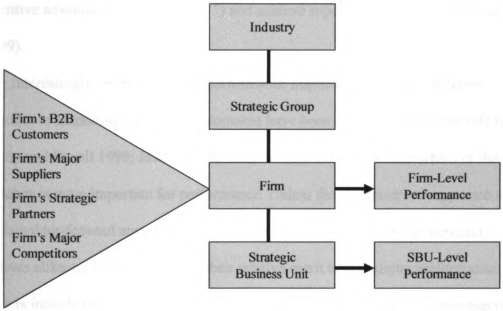
TABLE 1 (CONT'D)

Author(s)	Context	Stakeholder(s) Addressed	Key Insights
Joshi (2009)	Empirical study of 153 manufacturer-supplier relationships in the following industries: industrial machinery and equipment; electronic equipment; and transportation equipment	Supplier	Collaborative communication in the supplier–manufacturer relationship leads to continuous supplier performance improvement by enhancing supplier knowledge of manufacturer needs and by developing supplier affective commitment toward the manufacturer.
Srinivasan, Pauwels, Silva-Risso, and Hanssens (2009)	Study using stock response modeling over six years in the automobile industry	Shareholder	New product introductions have positive postlaunch effects on shareholder returns. These effects are stronger when the company launches pioneering innovations with high levels of perceived quality and that are backed by substantial advertising investments.
Wieseke, Ahearne, Lam, and van Dick (2009)	Two empirical studies involving customer-contact employees in (1) a U.S. pharmaceutical company and (2) German travel agencies	Employee	Customer-contact employees who strongly identify with the organization are more likely to achieve higher performance.

To thoroughly understand how attending to the needs of multiple primary stakeholders influences marketing phenomena, this dissertation studies the different components of Figure 1 over three integrated essays. Briefly, Essay 1 (Marketing Strategy and Performance: Comparing Market and Stakeholder Approaches) investigates the vertical levels of the industry, strategic group, and firm and their relative effects on performance. The key stakeholder focus in this essay is at the strategic group level, where it examines the importance of developing a firm's strategy based on a stakeholder-focused approach vis-à-vis a market-driven approach to doing business. Essay 2 (Stakeholders, Customer Satisfaction, and Performance) rests at the firm level but horizontally spans multiple entities. In particular, this essay examines how the firm's stakeholder focus is shaped by entities in its supply chain environment (primary suppliers, business-to-business customers, and strategic partners) and marketplace (major competitors) and how a stakeholder focus impacts customer satisfaction and performance. Lastly, Essay 3 (Stakeholder-Focused Organizational Learning, Responsiveness, and Innovation/Imitation) lies at the strategic business unit (SBU) level to investigate how knowledge development comes into play when dealing with stakeholders. It studies the direct and combinative effects of organizational learning about stakeholders on the firm's market responsiveness and on the extent of innovation and imitation. As such, this dissertation examines the importance of primary stakeholders across multiple levels and focus areas. The next three sections provide an overview of what each essay seeks to accomplish.

FIGURE 1

Stakeholder Focus at Multiple Levels



OVERVIEW OF ESSAYS

Essay 1

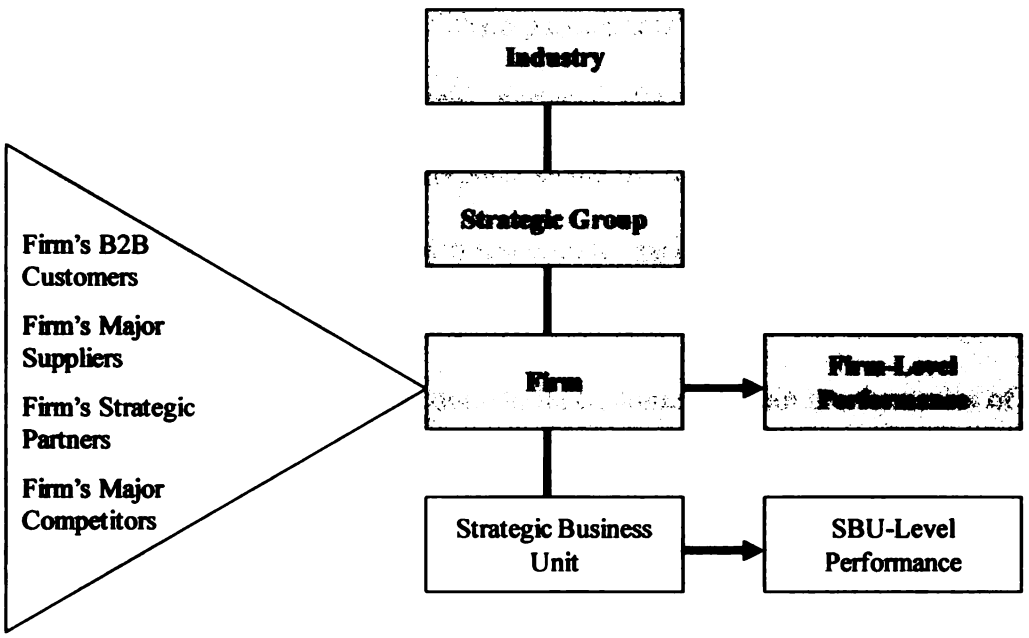
Strategic marketing researchers have long been interested in determining the performance implications of different approaches to marketing strategy development. For example, research stemming from the market orientation stream has centered on the benefits that firms adopting a market-driven approach to developing strategies obtain (e.g., Day 1994). Researchers in this area have consistently found that those firms that acquire information about the needs and wants of their customers and that respond to this information by developing and implementing strategies that target those needs and wants outperform firms that do otherwise (e.g., Jaworski and Kohli 1993; Rueckert 1992). However, changes in the business environment have caused a number of firms to embrace a newer approach – the stakeholder-focused approach to strategy development – which focuses on developing strategies that create value to multiple stakeholder groups

(e.g., Walker and Marr 2001). Advocates of this approach argue that firms that develop and implement strategies that are focused on meeting stakeholder claims obtain a competitive advantage (e.g., Jones 1995) and achieve superior performance (Berman et al. 1999).

Interestingly, even though the performance implications of these different approaches to marketing strategy development have been examined independently (e.g., Greenley and Foxall 1998; Jaworski and Kohli 1993), it is still unclear which of the two approaches is more important for performance. Unless the market-driven approach and the stakeholder-focused approach are considered simultaneously, researchers and executives alike are left unsure about their relative merit in explaining performance. Essay 1 is intended to alleviate this important knowledge gap. As such, a key objective of this essay is to assess which marketing strategy development approach is relatively more important to achieve superior market performance. To reach this objective, a multilevel model of the influences of the firm, strategic group, and industry effects on firms' market performance is developed (see Figure 2). The multilevel modeling approach serves to tease out the firm- and industry-level effects. Emphasis is placed on two sets of strategic groups derived from classical marketing strategy along with the recent marketing strategy focus on stakeholders to determine the effectiveness of firms developing marketing strategy based on a market-driven and a stakeholder-focused approach. The model is tested using data obtained from the Kinder Lydenburg Domini Statistical Tool for Analyzing Trends in Social and Environmental Performance and Standard & Poor's Compustat North America databases, involving 1,716 firms over a four-year period.

FIGURE 2

A Vertical Focus on Stakeholders



Essay 2

Attending to the needs of multiple stakeholders is becoming an important element in strategic marketing. Even though several scholars have called for research that examines the implications of efforts directed at a broader set of stakeholders beyond the customer (e.g., Maignan and Ferrell 2004), for the most part, marketing researchers have failed to examine the firm's focus on the simultaneous interests of multiple stakeholders and the effects of such a focus, as was previously discussed. Essay 2 addresses this gap in the literature by examining the antecedents and consequences of a focal firm's stakeholder focus. A firm's *stakeholder focus* broadly refers to the amount of attention, resources, and time the firm devotes to addressing the interests of multiple stakeholder groups (e.g., customers, employees, suppliers, shareholders, communities, and regulators). Importantly, firms respond to the claims of their stakeholders within an

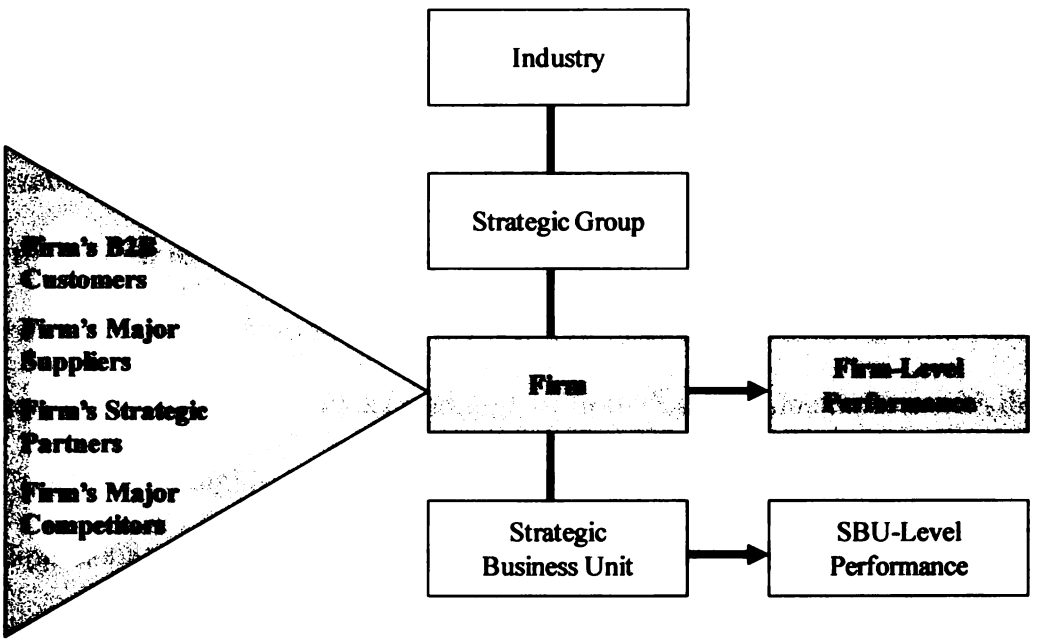
environment that consists of other firms that are also responding to their stakeholders' demands. Given that firms do not operate in a vacuum, an important objective of this study is to examine whether the supply chain participants' (business-to-business customers, primary suppliers, and strategic partners) stakeholder focus along with that of a firm's major competitors in the marketplace shape the focal firm's stakeholder focus.

Customer satisfaction is the key intermediate marketing outcome in this study. A firm's stakeholder focus is related to customer satisfaction in that information about satisfaction projects what the firm has done to its customers within the dynamics of the overall marketplace and the firm's multiple stakeholders (Fornell 2007, p. 8). As such, another objective is to investigate the impact of the focal firm's stakeholder focus on customer satisfaction. Additionally, it is of importance to investigate the impact of customer satisfaction on firm performance, given that previous research has produced conflicting evidence. While some studies have found that customer satisfaction translates into economic benefits for firms (e.g., Anderson, Fornell, and Lehmann 1994), others have concluded that by driving up costs, it can negatively affect the firm's bottom-line performance (e.g., Anderson and Mittal 2000). Hence, this study reexamines the nature of the customer satisfaction–performance relationship with a particular focus on a potential non-linear relationship between the variables. To accomplish the aforementioned objectives, this paper draws on an integration of theories and literature bases to develop a strategic marketing model centered on stakeholders which involves five separate types of directly connected firms (see Figure 3). This model is tested using data compiled from four databases spanning the years of 2004 to 2007 (i.e., American Customer Satisfaction Index, Mergent Horizon, Kinder Lydenburg Domini Statistical Tool for Analyzing

Trends in Social and Environmental Performance, and Standard & Poor's Compustat North America database).

FIGURE 3

A Horizontal Focus on Stakeholders



Essay 3

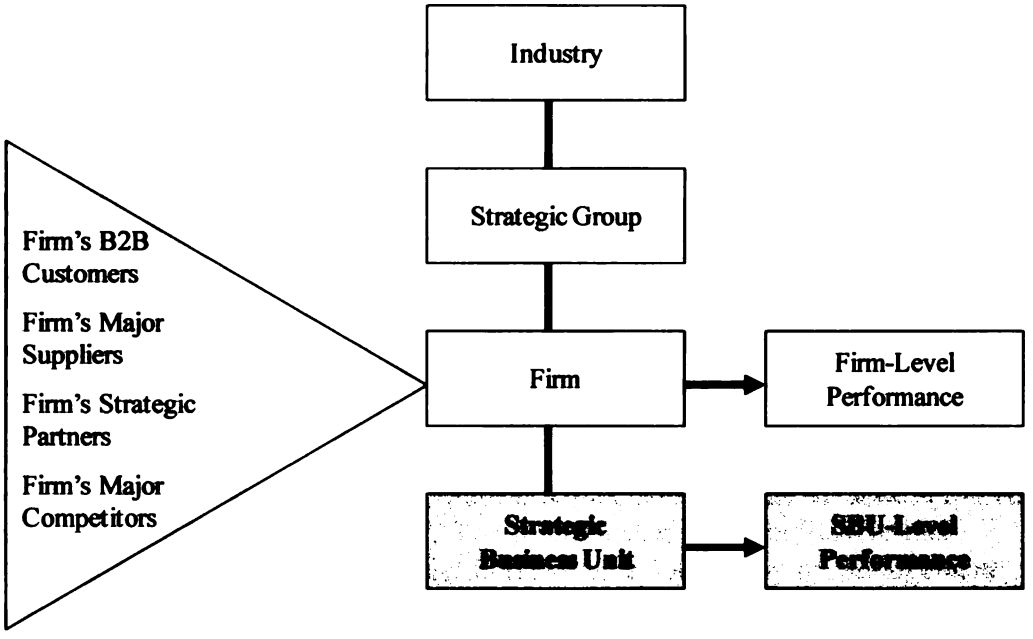
Success in the global marketplace is increasingly determined by the information and know-how organizations possess (e.g., Kogut and Zander 1993). The significance of knowledge as a strategic weapon for organizations to excel in the competitive global marketplace has prompted a number of marketing scholars to examine how organizations learn about the market (e.g., Hurley and Hult 1998; Sinkula 1994; Slater and Narver 1995). Studies have concluded that through organizational learning, organizations develop new knowledge that facilitates behavior change (e.g., Slater and Narver 1995). Interestingly, while valuable contributions have been made in this stream, research has almost exclusively focused on how organizations learn about customers (e.g., Sinkula,

Baker, and Noordewier 1997; Slater and Narver 1995), thereby disregarding how such organizations learn about their other primary stakeholders (i.e., suppliers, employees, shareholders, community, and regulators). This is unfortunate given the increasing importance organizations place on meeting their stakeholders' demands, as was previously discussed. In addition, the extant marketing literature on organizational learning, for the most part, does not account for the alternative mechanisms that organizations use to acquire information about the market. For example, organizations can differ in their reliance on obtaining information from their own experience (experiential learning), from the observed behavior of other organizations with whom they have no direct links (vicarious learning), or from direct communication with their peers (contact learning) (e.g., Lieberman and Asaba 2006; Ordanini, Rubera, and DeFillippi 2008). These knowledge acquisition mechanisms may affect the way organizations respond to their stakeholders and whether their stakeholder practices are innovative or imitative.

Accordingly, this study aims to answer the following research questions: (1) does stakeholder-focused organizational learning influence stakeholder-focused responsiveness?; (2) is the organization's degree of innovative and imitative stakeholder practices affected by the mechanism(s) it relies on to acquire stakeholder-related knowledge?; and (3) are there interaction effects between these knowledge acquisition mechanisms? To delve deeper into the complexities inherent in learning about and responding to stakeholders, the unit of analysis is the strategic business unit (see Figure 4). The hypotheses are tested with data obtained from 349 marketing and supply chain executives representing the SBUs of 285 firms across all economic sectors.

FIGURE 4

An SBU Focus on Stakeholders



ORGANIZATION OF THE DISSERTATION

This dissertation is organized as follows. First, Essay 1 investigates whether developing firm strategies based on a stakeholder-focused approach versus a market-driven approach to doing business influences performance. This is followed by Essay 2, which examines how a firm's stakeholder focus is shaped by that of entities in its supply chain environment and marketplace, and at the same time, links a firm's stakeholder focus to customer satisfaction and performance. Then, Essay 3 investigates whether stakeholder-focused organizational learning influences how an organization responds to its stakeholders. The last section consists of the overall conclusions and the major contributions of this dissertation.

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Essay 1

MARKETING STRATEGY AND PERFORMANCE: COMPARING MARKET AND STAKEHOLDER APPROACHES

Strategic marketing researchers have long been interested in uncovering why some organizations outperform others. Research emerging from the classical view of marketing strategy – based primarily on the market orientation literature – has consistently found that those firms that acquire information about the needs and wants of their customers and that respond to this information by developing and implementing strategies that target those needs and wants outperform firms that do otherwise (e.g., Jawoski and Kohli 1993; Kirca, Jayachandran, and Bearden 2005; Ruekert 1992).

Changes in the business environment have caused numerous firms to shift from the more traditional market-driven approach (e.g., Day 1994) to embrace a newer approach to marketing strategy development – the stakeholder-focused approach. Drawing on stakeholder theory, this approach consists of developing mutually trusting and cooperative relationships with multiple stakeholder groups (Jones 1995). This requires firms to be cognizant of the interests of the different stakeholders and to develop strategies that are focused on addressing those interests. A stakeholder refers to "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman 1984, p. 46), and includes customers, employees, suppliers, shareholders, communities, and regulators (Clarkson 1995). According to advocates of the stakeholder-focused approach, firms that develop and implement strategies that are centered on meeting a broad set of stakeholder demands reduce contracting costs, achieve a good reputation, obtain a competitive advantage (e.g., Jones 1995), and are rewarded

with superior financial performance (Berman et al. 1999) and improved shareholder value (Hillman and Keim 2001).

A company that has adopted a stakeholder approach is Cisco Systems. By gathering information about its stakeholders' demands, by monitoring how well the company's actions meet these demands, and by seeking to improve stakeholder satisfaction, Cisco is highly committed to its stakeholder relationships (Cisco 2009). For example, the company delivers high-quality products that satisfy its customers; helps employees achieve work-life balance by offering flexible work schedules; develops long-term relationships with its suppliers by meeting regularly with them, discussing environmental threats, and proposing potential solutions; establishes trust among shareholders through its commitment to transparency in financial reporting; and is actively involved in local communities through volunteering efforts and charitable contributions (Cisco 2008). This has helped the company become the "world's most valuable enterprise" providing computer networking solutions (Walker and Marr 2001).

Interestingly, even though these different approaches to developing and implementing marketing strategies have been examined independently (e.g., Greenley and Foxall 1998; Jaworski and Kohli 1993), there are no studies in the marketing literature that assess and compare the relative effects of these approaches on firm performance. This is unfortunate given the increasing interest by marketing executives in gaining a better understanding of the development of effective marketing strategies, an area which represents a top research priority for the Marketing Science Institute (Marketing Science Institute 2008). Unless the market-driven approach and the stakeholder-focused approach are considered simultaneously, researchers and executives

alike are left unsure about their relative merit in explaining performance. Against this backdrop, the objective of this essay is to assess which marketing strategy development approach is relatively more important to achieve superior market performance, while accounting for firm and industry effects.

To accomplish this objective, this paper draws on level-specific theories and literature bases (e.g., resource-based view, industrial organization economics, the strategic group literature) to develop a multilevel model that examines the relative influences of the firm, strategic group, and industry effects on firm performance. The multilevel modeling approach serves to tease out the firm- and industry-level effects, and concentrate on the strategic-group level, which captures the two different marketing strategy development approaches (i.e., stakeholder-focused approach and market-driven approach).

The unique contribution of this paper is a focus on two sets of strategic groups derived from long-covered topics in marketing strategy, such as market orientation and marketing capabilities (market-driven group), along with more recently tackled marketing strategy areas such as marketing exchanges with multiple stakeholders (stakeholder-focused group). Specifically, this paper develops hypotheses related to the performance implications of developing a firm's strategy based on a stakeholder-focused and market-driven approach to doing business. It uses systems theory – which stresses the interdependence of the firm and its environment (e.g., Scott 1981) – to theoretically integrate the three hierarchical levels of analysis. Then, it tests the hypotheses using a sample of firms from manufacturing and services industries (n=1,716) with data from a four-year period (2004-2007) taken prior to the worldwide economic downturn in 2008.

As such, this paper simultaneously considers the three levels of analysis in an open interconnected system to better understand the value of the two different forms of marketing strategy development.

SYSTEMS THEORY AND MULTILEVEL INFLUENCES

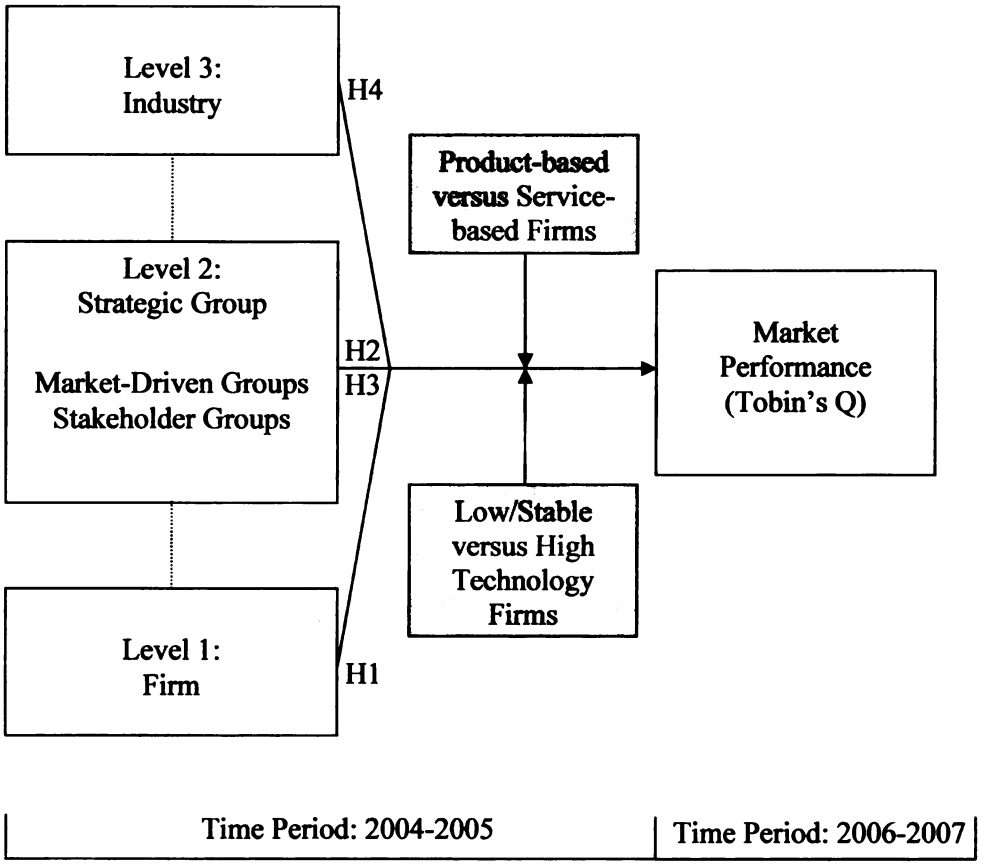
Systems theory holds that every system, regardless of its nature (e.g., mechanical, biological, social) is composed of multiple elements that are interconnected (Kast and Rosenzweig 1972). Although some systems are closed (i.e., self-contained), firms are most appropriately viewed as operating within an open system. The open systems perspective stresses the interdependence of the firm and its environment (Scott 1981). In particular, it emphasizes the reciprocal ties that bind the firm with those elements and flows that surround it (Scott and Davis 2007). Given that the environment is an important source of information, energy, and materials, interaction with the environment is essential for the survival of the firm (e.g., Kast and Rosenzweig 1972; Scott and Davis 2007).

Another key feature of open systems is the hierarchical relationships between subsystems (Simon 1962). Specifically, "all systems are made up of subsystems and are themselves subsumed in larger systems – an arrangement that creates linkages across systems and confounds the attempt to erect clear boundaries around them" (Scott and Davis 2007, p. 96). Hence, open systems theory provides a useful foundation to integrate the three hierarchical levels of analysis in this study – the firm, the strategic group, and the industry – to examine the relative influence of each level on firm performance. As depicted in Figure 5, these three levels are integrated with one another such that both the strategic group and the industry to which a firm is associated shape the firm, which in turn, has an effect on the firm's performance (e.g., Short et al. 2007). In the following

sections, a series of level-specific theories and literature bases build on complex open systems theory to delineate why firms, strategic groups, and industries are important sources of firm performance.

FIGURE 5

Hierarchical Linear Model of the Effects of the Firm, Strategic Group, and Industry Levels on Market Performance (Tobin's Q)



Firm-Level Effects on Market Performance

A number of theoretical perspectives focus on firm-level effects to explain variation in performance outcomes across firms. The resource-based view of the firm (RBV) identifies the firm's idiosyncratic resources as the primary determinant of

competitive advantage and firm performance (Barney 1991). The RBV portrays resources as those tangible and intangible assets and capabilities possessed by a firm that enable the firm to implement valuable strategies that improve its efficiency and effectiveness (Barney 1991; Wernerfelt 1984). Firm resources include brand names, patents, corporate culture, trade contacts, knowledge, management skills, and efficient procedures (Barney 1986; Barney 1991; Grant 1991; Wernerfelt 1984). In order for resources to be a source of sustained competitive advantage, they must be valuable, rare, imperfectly imitable, and non-substitutable (Barney 1991).

An important contribution of the RBV is that it explains long-lived variation in the profitability of firms within the same industry (Peteraf 1993). Due to the accumulation of unique resources, organizations evolve differently, thus exhibiting distinct organizational structures and implementing different marketing strategies (Hawawini, Subramanian, and Verdin 2003). By having unique strategic marketing resources, firms erect barriers to imitation with the objective of generating above-normal returns and protecting their competitive advantage in the marketplace (Wernerfelt 2005). Rumelt (1984, 1987) argues that through isolating mechanisms – such as response lags, producer learning, and reputation – firms prevent imitative competition.

The firm's portfolio of unique strategic resources also influences the strategies that the firm adopts (Peteraf 1993; Wernerfelt 2005). According to the RBV, these resources enable the firm to either achieve superior performance through differentiation of its products and services or to produce more efficiently to achieve a low-cost position (Conner 1991; Hunt and Morgan 1995; Porter 1980). At a given point in time, customers have divergent preferences, but due to constraints in inputs, the firm is unable to satisfy

all of the customers' wants and needs (cf. Peteraf 1993). Instead, the firm will seek a balance between the external market demands and the internal resources and capabilities to satisfy a segment of the market (Grant 1991). Different firms possess different resources and hence will target different segments, giving rise to intra-industry heterogeneity and profit level variation (Hunt and Morgan 1995). As such, idiosyncratic firm characteristics (e.g., marketing resources and capabilities) explain different performance outcomes across firms within an industry (Barney 1991).

From an open systems theory view, the firm level is an essential component of a larger system that influences the performance of firms (Ashmos and Huber 1987). While the RBV holds that the firm's portfolio of resources shapes its performance (Barney 1991), external factors "may change the significance of resources to the firm" (Penrose 1959, p. 79). Specifically, the value of marketing and other resources depends on the context in which the firm operates (Priem and Butler 2001). As such, it is critical to evaluate the influence of the firm's internal environment while simultaneously accounting for the strategic group and industry effects (Rouse and Daellenbach 1999). An important tenet of open systems theory is that the interdependencies within a subsystem tend to be more significant than those between subsystems (Scott and Davis 2007). As a result, the firm level has substantial explanatory power in terms of performance (cf. Rumelt 1991). After isolating the effects of the strategic group- and industry-levels, the firm effects will be an important source of performance. Therefore:

H1: Firms' market performance within strategic groups and industries varies based on differences in firm-level characteristics.

Strategic Group-Level Effects on Market Performance

The notion that a firm's performance is influenced by the strategic group in which it resides has long been tackled in the strategic marketing and management literatures (e.g., Barney and Hoskisson 1990; Caves and Porter 1977; Fiegenbaum and Thomas 1990; Lewis and Thomas 1990; Nair and Kotha 2001; Porter 1979; Vorhies and Morgan 2003). Supporters contend that strategic group membership along with its related collective behavior is a main driver of durable performance differences among firms within an industry (e.g., Mehra 1996). A strategic group is defined as a cluster of firms competing in the same industry that implement similar strategies (Porter 1980). Firms within a strategic group closely resemble each other, but they differ from firms outside the group on key strategic dimensions, such as marketing approaches, innovation, and scales of activity (Porter 1979). Due to their similarity in structure, group members are likely to recognize their mutual dependence, respond in the same manner to competitive changes, and accurately anticipate each other's reactions (Caves and Porter 1977). This behavioral congruence suggests that group members act as a reference group (Fiegenbaum and Thomas 1995). Firms benchmark group members and adjust their marketing strategies toward the group target.

The extant literature on strategic groups has identified two main reasons that explain variation in performance outcomes across groups within an industry: the presence of mobility barriers (Caves and Porter 1977) and the existing conditions of rivalry (Cool and Dierickx 1993). Mobility barriers are factors that impede firms from moving from one strategic position to another (Porter 1980). These mobility barriers represent an investment in a collective capital asset whose benefits are enjoyed among the firms

within the group (McGee and Thomas 1986). This translates into a relative cost advantage for such firms over competitors in other groups which would have to engage in costly investments to overcome the barriers and enter the group. Given that these investments are generally risky and the benefits gained from them may not compensate for the costs incurred, they are expected to deter a firm's efforts to change groups (Porter 1979). As a result, firms within a group have low costs associated with replicating the actions of their group members while firms outside the group may have a substantial cost disadvantage, which impedes marketing imitation (Hatten and Hatten 1987). In short, mobility barriers prevent firms in low-performing groups from shifting into high-performing groups, thereby explaining sustainable differences in performance (Nair and Kotha 2001; Porter 1980).

Intergroup rivalry in an industry is a function of market interdependence among groups (i.e., the degree to which different groups are targeting the same customers), the strategic distance between groups (i.e., the degree to which strategies differ), and the number and size of the groups (Porter 1979). According to Porter (1980), a particular group will be most exposed to intergroup rivalry when it faces a larger number of groups that are relatively equal in size, targets the same market segments, and implements different strategies. Excessive intergroup rivalry can reduce a firm's profit (Nair and Kotha 2001). Intragroup rivalry can also have important implications for the performance of the firms (cf. Cool and Dierickx 1993). Specifically, firms within a strategic group may generate above-normal returns to the extent that the group structure hinders the emergence of perfect competition within it (Nair and Kotha 2001).

From the perspective of open systems theory, the strategic group level represents a system that is composed of multiple subsystems of a lower order (i.e., firms) and is in turn contained within a suprasystem (i.e., industry). As such, strategic groups represent a useful intermediate level of analysis that serves to explain variation in performance within an industry (Thomas and Venkatraman 1988). The importance of the strategic group level has been demonstrated in several studies (e.g., Leask and Parker 2007; Nair and Kotha 2001). However, since the firm, strategic group, and industry effects on performance are intertwined, it is important to examine the direct effects of group membership while isolating the effects of the firm and industry levels (Nair and Kotha 2001). As an initial generic hypothesis addressing the overall influence of strategic groups, the following hypothesis predicts that after isolating the firm and industry effects, strategic groups influence firm performance (Short et al. 2007). Stated formally:

H2: Firms' market performance within industries varies across strategic groups.

However, the influence of group membership on firm performance is a function of the strategically relevant characteristics that define group membership, such as simultaneously focusing on multiple stakeholders' interests (stakeholder-focused strategic group) or targeting the marketplace via market orientation efforts (market-driven strategic group). Each group's focus resonates among firms in today's marketplace and offers unique marketing strategy-making and implementation guidelines. Specifically, each group requires a different set of market strategies, and so, any variation in performance can be explained by the effectiveness of the strategic marketing action signified by each approach (Hatten and Hatten 1987).

Market-driven strategic groups. Rooted in marketing strategy and based mainly on the market orientation literature (e.g., Day 1994; Kohli and Jaworski 1990; Matsuno and Mentzer 2000; Narver and Slater 1990), the market-driven strategic group is composed of firms that emphasize customers, employees, and supplier relationships when developing and implementing strategies and place relatively less emphasis on other stakeholders (e.g., shareholders, regulators, and communities). Firms within the market-driven strategic group possess superior outside-in capabilities, specifically market sensing and customer linking capabilities, which allow them to anticipate and respond to changing market conditions ahead of competitors (Day 1994). These capabilities function as mobility barriers that insulate the firms from entry by members of other groups (Porter 1979, 1980).

As has been discussed extensively in the market orientation literature, customers are central to market-driven firms. For instance, Narver and Slater (1990) identify customer orientation as an essential behavioral component of a market orientation, while Deshpande, Farley, and Webster (1993) argue that a customer orientation is synonymous with a market orientation. Further, Webster (1992) views customer relationships as the firm's key strategic resource. As such, firms that put their customers' interests first achieve superior performance (Deshpande, Farley, and Webster 1993). This entails a sufficient understanding of the firm's current and potential customers (Narver and Slater 1990), which can be obtained through the generation and dissemination of market intelligence in the marketplace and across the different units within the firm (Kohli and Jaworski 1990). Those firms that invest substantial resources to understanding their

customers and that coordinate the actions of all the functions of the firm attain a competitive advantage (Slater and Narver 1994).

The second type of relationship that the market-driven strategic group focuses on is that with employees. The importance of employee relationships is captured within the interfunctional coordination component of a market orientation (Narver and Slater 1990). Specifically, firms must draw upon and effectively integrate their human resources to be able to create superior value for their customers. This requires the marketing function to be sensitive and responsive to the needs of the other units and functions within the firm. Another reason firms nurture employee relationships is because of the direct impact satisfied employees can have on performance outcomes, such as on the level of customer satisfaction (Homburg and Stock 2004).

Market-driven strategic groups also concentrate on supplier relationships. The inclusion of a supplier focus into the market-driven strategic group is justified by Day (1994), who argues that market-driven firms seek "closer, more collaborative relationships with suppliers based on a high level of coordination, participation in joint programs, and close communication links" (Day 1994, p. 44-45). Matsuno and Mentzer (2000) and Matsuno, Mentzer, and Rentz (2000) provide further rationale that the market-driven strategic group consists of firms that are cognizant of their suppliers' needs. Specifically, Matsuno, Mentzer, and Rentz (2000) expand Kohli, Jaworski, and Kumar's (1993) market orientation scale (MARKOR) to incorporate suppliers into assessments of intelligence generation (e.g., whether the firm spends time with its suppliers to learn about their business), intelligence dissemination (e.g., whether the firm has cross-functional meetings regularly to discuss market developments regarding suppliers), and

responsiveness (e.g., whether the firm is slow to start new business with new suppliers). Firms within this group recognize that supplier relationships can be instrumental to the firm's ability to achieve its objectives (Buchanan 1992). For instance, suppliers can help drive down a firm's cost structure (Cannon and Homburg 2001) and interactions between the firm and its suppliers can lead to both incremental and radical innovations (Roy, Sivakumar, and Wilkinson 2004).

Stakeholder-focused strategic groups consist of firms that, from a strategy development standpoint, are highly focused on addressing the interests of multiple stakeholders beyond those addressed by market-driven strategic groups. A stakeholder refers to "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman 1984, p. 46). Stakeholder theory holds that a particular group can be identified as a stakeholder that merits managerial attention if it possesses at least one of the following attributes: power, legitimacy, and urgency (Mitchell, Agle, and Wood 1997). This study concentrated the strategic group's focus on *primary* stakeholders, who are those that are crucial for the firm's survival and continued market success (Clarkson 1995). Primary stakeholders center on six segments in the marketplace and include customers, employees, suppliers, shareholders, regulators, and communities. Drawing on resource dependence theory, the importance of the six stakeholders lies in their capacity to furnish resources that are critical to the firm's ongoing operations (Pfeffer and Salancik 1978). It is the dependence of the firm on such actors for resources that provides them with power over the firm (Frooman 1999). In turn, the possession of power classifies these actors as stakeholders worthy of managerial attention (Mitchell, Agle, and Wood 1997).

Firms in the stakeholder-focused strategic group adopt a broader perspective than those within the market-driven group. Similar to firms in the market-driven strategic group, they attend to the interests of customers, employees, and suppliers, which can lower their cost structure, create superior value for their customers, and offer innovative products. However, by also focusing on shareholders, regulators, and communities, firms in the stakeholder-focused strategic group stand to gain additional benefits. For example, firms that pay attention to the enhancement of shareholder value implement strategies that bring financial benefits that exceed the costs incurred (e.g., Day and Fahey 1988; Srivastava, Shervani, and Fahey 1998). As a result, by meeting shareholder demands, financial performance is maximized.

Firms within the stakeholder-focused strategic group also attend to regulators. Regulators are "important stakeholders that exert external political and economic forces on the firm" (Banerjee, Iyer, and Kashyap 2003, p. 109). There is empirical evidence that regulatory forces have an impact on the firm's environmental corporate strategy (Banerjee, Iyer, and Kashyap 2003). Firms within the stakeholder-focused group not only respond to these forces by complying with regulators' demands but are also active participants in the regulatory process by exerting some influence over legislation (e.g., Henriques and Sadorsky 1999). Previous research has concluded that focus on regulators and regulations can help firms introduce better practices and enhances the competitiveness of firms (e.g., Buysse and Verbeke 2003; Porter and van der Linde 1995). For example, environmental regulations foster greater innovation, product costs reduction, and continuous improvement (e.g., Porter and van der Linde 1995).

In addition to paying attention to customers, employees, suppliers, shareholders, and regulators, the stakeholder-focused strategic group also equally attends to the interests of the community stakeholders. Community stakeholders include nongovernmental organizations, geographic communities, and special interest groups organized around a political or social cause (e.g., Kassinis and Vafeas 2006). These groups are particularly important given that they can influence public opinion in favor of or against a firm (e.g., Henriques and Sadorsky 1999). In this context, improved social performance results from allocating company resources into social arenas, such as support to local schools and housing initiatives for the disadvantaged (e.g., Waddock and Graves 1997). Social performance, in turn, may lead to a competitive advantage and superior performance (e.g., Brammer and Millington 2008; Waddock and Graves 1997).

According to the instrumental approach to stakeholder theory, firms that simultaneously attend to the needs of these six stakeholders achieve superior market performance (Donaldson and Preston 1995). Specifically, relational interactions with the primary stakeholders can develop intangible, socially complex resources, such as reputation and brand equity, which can in turn create value (Hillman and Keim 2001). Because of the tacit nature of these strategic resources as well as the long-term investment they require, they are difficult to replicate. In the context of strategic groups, these investments represent mobility barriers that impede firms outside the stakeholder-focused strategic group from imitating strategic decisions without considerable costs and significant elapsed time (McGee and Thomas 1986). Further, these barriers enable the firms within the group to sustain their advantages over those in other groups (Porter 1979).

Drawing on stakeholder theory and the literature on market orientation, it is predicted that the stakeholder-focused strategic group is relatively more important for firm performance than the market-driven strategic group. The stakeholder-focused strategic group seeks to satisfy the demands of all the primary stakeholders, often without favoring one stakeholder at the expense of others (Clarkson 1995). Hence, this view of strategic groups is more comprehensive in nature than the market-driven group. On the other hand, the market-driven group emphasizes some stakeholders, while downplaying others. Paying simultaneous attention to the legitimate interests of all the primary stakeholders has important implications for firm performance (Donaldson and Preston 1995). In particular, firms that develop mutually trusting, cooperative relationships with all stakeholders attain a competitive advantage over firms that do not act as comprehensively in attending to the needs of all primary stakeholders (Jones 1995). In addition, the intangible, socially complex resources that these relationships can create (Hillman and Keim 2001) constitute mobility barriers that are difficult to overcome (McGee and Thomas 1986). In turn, these barriers can serve to explain why firms within the stakeholder-focused strategic group are persistently closer aligned with superior market performance than are firms defined by the market-driven group (Porter 1980). As such, defining strategic groups based on stakeholders should result in a greater effect on performance than groups defined solely by market-driven. Thus:

H3: Firms' market performance within an industry varies across types of strategic groups, with the stakeholder-focused strategic group effect being greater than the market-driven group effect.

Industry-Level Effects on Market Performance

Researchers in varied fields – such as marketing (Banerjee, Iyer, and Kashyap 2003), economics (Schmalensee 1985), organizational ecology (Hannan and Freeman 1977), and strategic management (Rumelt 1991) – have shown that the industry in which a firm operates shapes the performance of the firm. Industrial organization economics (IO) is perhaps the most dominant view used to explain this stream of research (Bain 1956; Mason 1939). The structure-conduct-performance (SCP) paradigm within IO proposes that the structural elements of an industry influence the strategies (conduct) firms can pursue, which in turn determine their performance (Roquebert, Phillips, and Westfall 1996). As such, the industry is the main unit of analysis, and the industry structure in which the firm operates is seen as the primary determinant of firm performance (Hawawini, Subramanian, and Verdin 2003).

Research adopting the IO perspective has made two basic assumptions. First, firms within an industry are identical regarding the resources they control. Second, should resource heterogeneity develop, it will be temporary given that resources are highly mobile. As such, homogeneity of strategies among firms competing in the same industry exists since, for example, marketing actions taken by a firm are easily observable and duplicated by other firms. For instance, Mauri and Michaels (1998) found that firms within an industry are likely to develop uniform strategies for investing in technology and advertising. Consequently, common industry characteristics explain the similarity in strategies and performance among intra-industry firms.

Drawing on the hierarchical nature of complex open systems, the industry level contains both the strategic group- and the firm-levels (cf. Kast and Rosenzweig 1972).

According to this perspective, the industry in which the firm operates shapes the firm (Scott and Davis 2007), which, in turn, has an impact on its market performance. Support for this notion can be found in a number of studies. Specifically, previous research has examined the relative influence of firm and industry characteristics on firm performance by using various variance components models (e.g., McGahan and Porter 1997; Roquebert, Phillips, Westfall 1996; Rumelt 1991; Schmalensee 1985). Although there is some discrepancy in the results with regards to the magnitude of the effects, these studies provide evidence that industry conditions influence firm profitability. Therefore, to more holistically understand the effects of strategic groups and firms, the following hypothesis about industries is set forth:

H4: Firms' market performance varies based on industry differences.

METHOD

Data Collection

The sample was developed by combining data from the Kinder Lydenburg Domini Statistical Tool for Analyzing Trends in Social and Environmental Performance (i.e., KLD STATS) and Standard & Poor's Compustat database for a span of four years (2004 to 2007). Firms were studied using data taken prior to the most recent drastic worldwide economic downturn, which is commonly viewed to have started in the spring of 2008. Following Jap (1999), a one-year time lag was used in the analysis to be able to make causal inferences. Strategic group traits used data from 2004 to 2005 while market performance was based on data from 2006 to 2007. The firm and industry levels were included as dummy coded variables (Short et al. 2007). Data from each two-year period were averaged to provide more stable measures than single year data (cf. Bahadir,

Bharadwaj, and Srivastava 2008). All firms with data from 2004 to 2007 across KLD and Compustat were included. Complete data from KLD and Compustat for all measures and years were obtained for n=1,716 firms. Table 2 reports the sample sizes for the various segments and different levels (firm, strategic group, and industry levels).

TABLE 2

Sample Sizes of Firms, Strategic Groups, and Industries

Sample	Level of Analysis	Focus of the Strategic Group	
		Stakeholder-Focused Approach	Market-Driven Approach
All Firms	Industry	9	9
	Strategic Group	17	23
	Firm	1716	1716
Product Firms	Industry	4	4
	Strategic Group	6	10
	Firm	825	825
Service Firms	Industry	5	5
	Strategic Group	11	13
	Firm	891	891
High Tech Firms	Industry	3	3
	Strategic Group	7	9
	Firm	317	317
Low/Stable Tech Firms	Industry	9	9
	Strategic Group	17	23
	Firm	1399	1399

KLD is a dataset of firms rated by KLD Research and Analytics, Inc., a social investment firm, since 1991. It started in 1991 with 650 firms covered in the S&P 500 Index and the Domini 400 Social Index and has expanded to approximately 3,100 firms included in the Russell 1000 Index, the Large Cap Social Index, the Russell 2000 Index, and the Broad Market Social Index. Through their commercial database of corporate

ratings, SOCRATES, KLD Research Analytics, Inc. provides ratings on over 90 indicators in seven major areas including community, corporate governance, diversity, employee relations, environment, human rights, and products. The indicators include both positive and negative ratings (strengths and concerns). The ratings are based on an integration of five sources: (1) direct communication with firms, (2) global research firms, (3) media, (4) public documents, and (5) government and NGO information. KLD has been used in a variety of studies on stakeholders in marketing (e.g., Sen and Bhattacharya 2001) and management (e.g., Berman et al. 1999; Hillman and Keim 2001; Waddock and Graves 1997).

Compustat is a widely used database that includes fundamental financial and market information data on about 24,000 active and 10,000 inactive publicly held firms in the U.S. and Canada. The database provides thousands of income statement, balance sheet, statement of cash flows, and supplemental data items. Compustat has been used in numerous marketing studies to measure performance-related variables. For example, a recent collection of marketing studies used Compustat variables in conjunction with studying brands in mergers and acquisitions (Bahadir, Bharadwaj, and Srivastava 2008), customer satisfaction (Luo and Homburg 2008), brand portfolio strategy (Morgan and Rego 2009), and innovation related to consumer packaged goods (Sorescu and Spanjol 2008).

The demographics of the overall sample for 2007 are provided in Table 3. Table 4 reports how the firms were distributed among the different industries.

TABLE 3

Demographics of the Firms in the Overall Sample for 2007

	Mean	Std. Dev.
Total assets	$14,705 million	$92,988
Total liabilities	$12,026 million	$86,338
Net income	$ 327 million	$ 1,930
Revenue	$ 5,179 million	$18,255

TABLE 4

Sample Size by Industry

Industry	NAICS Codes	n
Agriculture, forestry and fisheries	111-115	4
Minerals	211-213	77
Construction	233-235	28
Manufacturing	311-339; 511	834
Transportation, communications and utilities	221; 481-493; 513	197
Wholesale trade	421-422	38
Retail trade	441-454	167
Finance, insurance and real estate	521-533	490
Service industries	512; 514; 541-814	309
Public administration	921-928	0

Defining Strategic Groups

As theoretically justified earlier in the paper, the formation of strategic groups was based on two approaches: stakeholder-focused approach (and involved customers, suppliers, employees, regulators, shareholders, and the community) and market-driven approach (customers, suppliers, and employees). The measures to assess these dimensions were obtained from KLD STATS. A battery of formative measures used in several previous studies (e.g., Berman et al. 1999; Sen and Bhattacharya 2001; Waddock and Graves 1997) were included: 6 items for customers, 20 items for employees, 3 items

for suppliers, 9 items for shareholders, 7 items for regulators, and 20 items for community based on theoretically defined properties (see Appendix A). These items centered on issues such as "the company's products have notable social benefits that are highly unusual or unique for its industry" (customers); "the company has outstanding employee benefits or other programs addressing work/life concerns, e.g., childcare, elder care, or flextime" (employees); "the company does at least 5% of its subcontracting, or otherwise has a demonstrably strong record on purchasing or contracting, with women- and/or minority-owned businesses" (suppliers); "the company owns between 20% and 50% of another company KLD has cited as having an area of social strength, or is more than 20% owned by a firm that KLD has rated as having social strengths" (shareholders); "the company has shown markedly responsible leadership on public policy issues and/or has an exceptional record of transparency and accountability concerning its political involvement in state or federal-level U.S. politics, or in non-U.S. politics" (regulators); and "the company has consistently given over 1.5% of trailing three-year net earnings before taxes to charity, or has otherwise been notably generous in its giving" (community).

The scores for each dimension were adjusted based on the number of items to standardize the effects (cf. Graves and Waddock 1994). For each dimension, a total score was calculated by adding KLD items that were labeled as strengths and subtracting those labeled concerns. The average scores ranged from -.86 to .92 for community ($\bar{x}$ = -.00), -2.00 to 1.00 for suppliers ($\bar{x}$ = -.07), -1.00 to 1.00 for employees ($\bar{x}$ = -.10), -1.60 to .00 for regulators ($\bar{x}$ = -.08), -1.33 to .50 for shareholders ($\bar{x}$ = -.13), and -2.00 to 1.00 for customers ($\bar{x}$ = -.12).

A two-stage clustering procedure was used to group firms into strategic groups within each industry. A two-stage procedure is valuable because it increases the validity of the final cluster solutions obtained for each of the approaches, i.e., stakeholder-focused and market-driven approaches (e.g., Ketchen and Shook 1996). Specifically, hierarchical clustering (i.e., Ward's method) was used to determine the number of appropriate groups in each broad industry category as well as their cluster centroids. Following standard practice, the largest percentage change in the agglomeration coefficient was used to suggest the optimal number of strategic groups in each broad industry. The cluster centroids were then used as the starting point for a non-hierarchical clustering procedure (i.e., K-means). Criterion validity was assessed through MANOVA significance tests following the procedures recommended by Ketchen and Shook (1996). As expected, the F-tests from Wilks's lambda, provided by the MANOVA, indicated significant differences in market performance based on strategic group membership for all industries in the overall sample ($p<.01$).

Inclusion of Segmentation Variables

Figure 5 portrays two segmentation (moderator) variables in the multilevel framework. These include product-focused vs. service-focused firms and low/stable vs. high technology firms. Theory does not allow to robustly specify predictions as to the nature of the potential variations in the multilevel effects across sample segments. However, previous research has shown that product and service firms have uniquely different characteristics that affect strategy (Berry 1999), as do low/stable and high tech firms (Slater, Hult, and Olson 2007). As such, segmentation analysis is incorporated for product firms, service firms, low/stable tech firms, and high tech firms into the analyses.

Table 5 reports how the sample was distributed among product and service firms. The product-focused firms (n=825) are those that are mainly focused on delivering products based on their industry classification, while the service-focused firms are mainly focused on delivering services (n=891).

TABLE 5

Sample Size by Product vs. Service Firm Classification

Product-Focused Firms			Service-Focused Firms		
Industry	NAICS Codes	n	Industry	NAICS Codes	n
Agriculture, forestry and fisheries	111-115	4	Transportation, communications and utilities	221; 481-493; 513	197
Minerals	211-213	77	Wholesale trade	421-422	38
Construction	233-235	28	Retail trade	441-454	167
Manufacturing	311-339; 511	834	Finance, insurance and real estate	521-533	490
			Service industries	512; 514; 541-814	309
Total		825			891

The identification of the low/stable vs. high technology firms was based on the American Electronics Association's (2003) classification of high tech industries. Founded in 1943, AeA is the largest high-tech trade association in the U.S. Forty-nine industries at the six digit level of NAICS adhere to AeA's core definition of what constitutes a high tech industry: "an industry had to be a maker/creator of technology, whether it be in the form of products, communications, or services" (AeA 2003, p. 4). These 49 industries fall into 16 industry categories: computer and peripheral equipment, communications equipment, consumer electronics, electronic components, semiconductors, defense electronics, measuring and control instruments, electromedical equipment, photonics, communications services, software publishers, computer systems design and related services, internet services, engineering services, R&D testing labs, and computer training.

A total of n=317 firms in the overall sample of n=1,716 firms were classified as high technology firms. The firms in the remaining NAICS classifications are considered either low or stable technology firms (n=1,399).

Market Performance

This study focuses on Tobin's Q as the market performance measure. Of the myriad performance measures used previously in multilevel studies, Tobin's Q has been the most common in a variety of marketing studies (e.g., Anderson, Fornell, and Mazvancheryl 2004; Lee and Grewal 2004; Luo and Bhattacharya 2006; Luo and Donthu 2006; Rao, Agarwal, and Dahlhoff 2004; Sorescu and Spanjol 2008). More specifically, Tobin's Q centers on "market performance" and, as such, aligns more closely with marketing strategy making and marketing implementation than return measures which are often used in multilevel studies (e.g., ROA). Tobin's Q was developed by James Tobin (1978), a Nobel laureate in economics, based on the concept that the collective market value of all firms on the stock market should be equal to their replacement costs.

The Q ratio allows marketing strategists to predict firms' behavioral actions. As such, Tobin's Q is a long-term, future-focused financial metric that is based on the market's assessment of the firm's present and future cash flows (Luo and Donthu 2006; Rao, Agarwal, and Dahlhoff 2004; Sorescu and Spanjol 2008). The formula for Tobin's Q includes "the sum of the market value of equity, the book value of debt, and deferred taxes divided by the book value of total assets minus intangible assets" (Thomas and Waring 1999, p. 739). A low Q value (between zero and one) means that the replacement costs of the firm's assets is greater than the stock value (i.e., the stock is undervalued in the market). A high Q value (greater than one), on the other hand, indicates that a firm's

stock is more expensive than the cost of replacing its assets (i.e., the stock is overvalued). The average Tobin's Q for 2006 and 2007 was 1.40 (with a range of .60 to 12.78 and std dev = .77).

Hierarchical Linear Modeling

Testing of the multilevel effects on Tobin's Q in the overall and segmented samples (i.e., product vs. service firms; low/stable vs. high tech firms) was done via hierarchical linear modeling (Raudenbush, Bryk, Cheong, and Congdon 2004). HLM is particularly appropriate for this study because of the hierarchical nature of the data (i.e., firms are nested in strategic groups which are nested in industries), and because it provides for simultaneous partitioning of the variance-covariance components (Bryk and Raudenbush 1992).

A three-level model was used to test the effects of firms (level-1) nested within effects of strategic groups (level-2) nested within the effect of industries (level-3). The level-1 model corresponds to the Tobin's Q performance of each firm as a function of a strategic group mean and random error. Thus, $performance_{ijk} = \pi_{0jk} + e_{ijk}$, where $performance_{ijk}$ is the average performance for Tobin's Q of firm i in strategic group j and industry k. π_{0jk} is the mean performance of strategic group j in industry k. e_{ijk} is a random firm effect (the deviation of firm ijk's score from the strategic group mean). The effects are assumed to be normally distributed with a zero mean and variance σ^2. The subscripts i, j, and k designate firms, strategic groups, and industries with $i = 1,2,\ldots, n_{jk}$ firms within strategic group j in industry k; $j = 1,2,\ldots, J_k$ strategic groups within industry k; and $k = 1,2,\ldots, K$ industries.

The level-2 (strategic group) and level-3 (industry) models follow a similar format to that of the level-1 model. As such, the level-2 model examines each the strategic group mean, π_{0jk}, as an outcome that varies randomly around the industry mean: $\pi_{0jk} = \beta_{00k} + r_{0jk}$, where β_{00k} is the strategic group Tobin's Q mean in industry *k*. r_{0jk} is a random strategic group effect (the deviation of strategic group *jk*'s mean from the industry mean). Similar to the level-1 assumptions, these effects are assumed to be normally distributed with a zero mean and variance τ_π. The level-3 model corresponds to the variability among industries, with the industry mean (β_{00k}) varying randomly around a grand mean: $\beta_{00k} = \gamma_{000} + u_{00k}$, where γ_{000} is the grand mean. u_{00k} is the random industry effect (the deviation of industry *k*'s mean from the grand mean). These effects are also assumed to be normally distributed and have a zero mean and variance τ_β.

As in many HLM studies, the objective of this study in analyzing the three-level model is to partition the total variance in $performance_{ijk}$ (i.e., Tobin's Q) into its components for the overall sample and the four segmented samples: among firms within strategic groups (σ^2), among strategic groups within industries (τ_π), and among industries (τ_β). This variance component partitioning allows for the estimation of the variance that can be attributed to firms within strategic groups [$\sigma^2 / (\sigma^2 + \tau_\pi + \tau_\beta)$], to strategic groups within industries [$\tau_\pi / (\sigma^2 + \tau_\pi + \tau_\beta)$], and among industries [$\tau_\beta / (\sigma^2 + \tau_\pi + \tau_\beta)$]. However, the main focus is placed on the strategic group level given the focus of the study, the corporate firm effects modeled, and the coarse-grained industry categorization employed. The hierarchical linear and nonlinear modeling software HLM 6.07 was used to conduct the analyses (Raudenbush, Bryk, Cheong, and Congdon 2004).

RESULTS

The clustering procedures resulted in an average of 1.89 groups per industry using the stakeholder-focused approach (range: 1-3 groups) and 2.56 groups using the market-driven approach (range: 1-5 groups). As indicated earlier, Table 2 reports on the number of firms, strategic groups, and industries covered in each analysis. Table 6 summarizes variances components and percent of total variance that is explained by the firm, strategic group, and industry levels in the ten HLM models for the overall, segmented samples (product vs. service firms and low/stable tech vs. high tech firms), and type of strategic group used (stakeholder-focused or market-driven group).

TABLE 6

The Effects of the Firm, Strategic Group, and Industry Levels on Market Performance (Tobin's Q)

		Focus of the Strategic Group			
		Stakeholder-Focused Approach		Market-Driven Approach	
Sample	Level of Analysis	Variance Component	Percent of Total	Variance Component	Percent of Total
All Firms	Industry	0.0185	0.0308	0.0377	0.0626
	Strategic Group	0.0335	0.0558	0.0106	0.0177
	Firm	0.5487	0.9134	0.5528	0.9197
	Total	0.6008	1.0000	0.6011	1.0000
Product Firms	Industry	0.0241	0.0942	0.0202	0.0800
	Strategic Group	0.0020	0.0078	0.0050	0.0197
	Firm	0.2295	0.8980	0.2275	0.9003
	Total	0.2555	1.0000	0.2527	1.0000
Service Firms	Industry	0.0158	0.0174	0.0431	0.0472
	Strategic Group	0.0447	0.0494	0.0154	0.0169
	Firm	0.8456	0.9332	0.8546	0.9360
	Total	0.9061	1.0000	0.9130	1.0000
High Tech Firms	Industry	0.0028	0.0072	0.0166	0.0427
	Strategic Group	0.0119	0.0307	0.0000	0.0001
	Firm	0.3710	0.9621	0.3719	0.9572
	Total	0.3856	1.0000	0.3886	1.0000
Low/Stable Tech Firms	Industry	0.0167	0.0260	0.0367	0.0571
	Strategic Group	0.0401	0.0622	0.0132	0.0206
	Firm	0.5871	0.9118	0.5927	0.9223
	Total	0.6439	1.0000	0.6426	1.0000

Firm Effects on Market Performance

The examination of Hypothesis 1 revealed that the variance accounted for by the firm level on the firm's market performance ranged from 89.80 to 96.21 percent across sample types ($p<.05$). The variances accounted for in the overall analyses were all at the low end of the 90 percent range: 91.34 percent for stakeholder-focused and 91.97 percent for market-driven. Regarding the product vs. service segments, the firm level explained a greater amount of the variance in Tobin's Q in the two models for the service firms

(ranging from 93.32 to 93.60 percent) than in the product firms (ranging from 89.80 to 90.03 percent). Similarly, in the low/stable tech vs. high tech analyses, it was found that the firm level explained a greater amount of the variance in each of the high tech models (ranging from 95.72 to 96.21 percent) compared with the low/stable tech firms (ranging from 91.18 to 92.23 percent). The variances that are attributed to the firm level compare to other multilevel studies involving the firm level (e.g., McGahan and Porter 1997; Rumelt 1991), and are consistent with the high firm-level variances using Tobin's Q as the performance variable (Short et al. 2007). Overall, Hypothesis 1 is supported.

Strategic Group Effects on Market Performance

A number of interesting results were identified for the strategic group level – i.e., the tests of Hypotheses 2 and 3. The variances accounted for by the strategic group level ranged from .01 to 6.22 percent across all segments. The group level was significant for both the stakeholder-focused and market-driven models in the overall analyses. The stakeholder-focused approach to strategic groups achieved a variance of 5.58 percent compared with 1.77 percent for market-driven groups ($p<.05$). Thus, both Hypotheses 2 and 3 are supported in the analyses.

Delving more deeply into the complexities of the analyses and results, it was found that the results and significance levels varied in the segmented samples. For the models involving the stakeholder-focused strategic groups, the group level was significant at the $p<.05$ level in three of the models, at the $p<.10$ in one model (product firms), and insignificant among high tech firms. For the market-driven strategic group analyses, the group level was significant at the $p<.05$ level in three of the models, at the $p<.10$ level in one model (service firms), and insignificant among high tech firms.

The variance accounted for by the strategic group level, which was defined based on a stakeholder-focused approach, ranged from .78 percent among product firms to 6.22 percent for low/stable tech firms. In the case of market-driven strategic groups, the range started at .01 percent in the high tech sample and peaked at 2.06 percent in the low/stable tech sample. An interesting finding was that the strategic group level explained less variance than the firm and industry levels in six of the ten models. However, the four models where the group level outperformed the industry level occurred for the stakeholder-focused strategic groups. In addition, the stakeholder strategic groups outperformed groups defined by the market-driven approach in four out of five cases (the exception was among product firms), lending additional credence to firms developing their strategy and actions based on a stakeholder-focused approach.

In analyzing the segmented samples, it was found that the stakeholder-focused strategic group has a larger effect among service firms (4.94 percent) than it does among product firms (.78 percent). In addition, the stakeholder group effect is larger among stable/low tech firms (6.22 percent) than it is for high tech firms (3.07 percent). These effects in the service and low/stable tech samples also drive the results in the overall sample. The stakeholder-focused strategic group effect in the overall sample (5.58 percent) outperformed the industry-level effect (3.08 percent).

Industry Effects on Market Performance

In examining Hypothesis 4, it was found that the variance accounted for by the industry level of analysis varied from .72 to 9.42 percent across all sample types. Seven of the ten samples had the industry level significant at $p<.05$, one was significant at $p<.10$ (low/stable tech firms using stakeholder-focused strategic groups), and two samples had

non-significant industry levels (service firms using stakeholder-focused groups and high tech firms using stakeholder-focused groups). Regarding the product vs. service segments, the industry level explained a greater amount of the variance in market performance in the two models for the product firms (ranging from 8.00 to 9.42 percent) compared with the service firms (ranging from 1.74 to 4.72 percent). Similarly, in the low/stable tech vs. high tech analyses, it was found that the industry level explained a greater amount of the variance in each of the low/stable tech models (ranging from 2.60 to 5.71 percent) compared with the high tech firms (ranging from .72 to 4.27 percent). In sum, Hypothesis 4 was supported in the overall analysis and among all product firm analyses and among all low/stable tech firm analyses. Partial support was found among service firms and high tech firms.

DISCUSSION

A key aspect of this study was to examine the value of marketing-strategy-driven strategic groups and their relative effects on firms' market performance. The classical view of marketing strategy, especially as rooted within a market orientation view of the firm, was captured within the strategic group labeled "market-driven" approach. The broader and more recent marketing strategy foundation stemming from a stakeholder-focused approach was also included. In this context, the market performance implications of these two types of strategic groups (stakeholder-focused and market-driven) were studied alongside the influences of firms and industry characteristics.

Overall, the results reveal that placing more emphasis on a broad set of stakeholders (i.e., customers, employees, suppliers, shareholders, communities, and regulators) by devoting attention and resources to addressing their simultaneous interests

when developing marketing strategy is relatively more important for market performance than engaging in more limited market-driven efforts – which focus on customers, employees, and suppliers, while place relatively less emphasis on shareholders, communities, and regulators. This finding holds across service and low/stable technology firms. In addition, the results indicate that firm-level characteristics account for the majority of the variance associated with performance, regardless of the sample type. The industry structure also shapes performance, especially in product and low/stable technology firms. This section discusses the implications of the study for research and managerial practice.

Research Implications

In a general sense, this study answers calls for research that incorporates marketing strategy insights from an expanded view of marketing beyond its traditionally heavy emphasis on customers (Maignan and Ferrell 2004). Firms today develop and implement marketing strategies in accordance with multiple stakeholders (cf. Handelman and Arnold 1999). By delineating two types of strategic groups, this study tested the effectiveness of adopting a stakeholder-focused and a market-driven approach, accounted for firm and industry effects, and addressed the relative market performance implications of each. As such, an important contribution of this study is that it is the first to demonstrate that, in general, developing marketing strategy based on a stakeholder-focused approach (i.e., taking into consideration the needs and interests of the six primary stakeholders) is more effective than strategy based on a market-driven approach (i.e., where emphasis is placed on customers, employees, and suppliers, and relatively less attention is paid to shareholders, communities, and regulators).

For example, in the overall results, the stakeholder-focused approach to deriving strategic groups accounted for approximately 6 percent of the variance compared with about 2 percent for the market-driven approach. Brush and Bromiley (1997) pointed out that when interpreting variance components, their relative importance can be examined via the square root of the variance at each level of analysis. In terms of market performance (Tobin's Q), the relative importance of the market-driven approach (9.90 percent) to deriving strategic groups is roughly half as important as the industry (18.65 percent for the industry in the market-driven sample) in which the firm operates in the sample of all firms (see Table 7). However, using the stakeholder-focused approach to obtain strategic groups, the relative importance of the group level is about 1.5 times that of the industry (17.28 percent for the group level vs. 12.83 percent for the industry level). This relative importance holds consistent when analyzing product firms, service firms, low/stable tech firms, and high tech firms.

TABLE 7

The Relative Importance of Firm, Strategic Group, and Industry Levels

Sample	Level of Analysis	Focus of the Strategic Group			
		Stakeholder-Focused Approach		Market-Driven Approach	
		% of Variance Explained	Relative Importance	% of Variance Explained	Relative Importance
All Firms	Industry	0.0308	0.1283	0.0626	0.1865
	Strategic Group	0.0558	0.1728	0.0177	0.0990
	Firm	0.9134	0.6989	0.9197	0.7145
	Total	1.0000	1.0000	1.0000	1.0000
Product Firms	Industry	0.0942	0.2286	0.0800	0.2062
	Strategic Group	0.0078	0.0657	0.0197	0.1022
	Firm	0.8980	0.7057	0.9003	0.6916
	Total	1.0000	1.0000	1.0000	1.0000
Service Firms	Industry	0.0174	0.1000	0.0472	0.1652
	Strategic Group	0.0494	0.1683	0.0169	0.0988
	Firm	0.9332	0.7317	0.9360	0.7360
	Total	1.0000	1.0000	1.0000	1.0000
High Tech Firms	Industry	0.0072	0.0682	0.0427	0.1731
	Strategic Group	0.0307	0.1413	0.0001	0.0074
	Firm	0.9621	0.7905	0.9572	0.8196
	Total	1.0000	1.0000	1.0000	1.0000
Low/Stable Tech Firms	Industry	0.0260	0.1181	0.0571	0.1779
	Strategic Group	0.0622	0.1827	0.0206	0.1069
	Firm	0.9118	0.6993	0.9223	0.7152
	Total	1.0000	1.0000	1.0000	1.0000

These findings are consistent with stakeholder theory, which predicts that those firms that develop stakeholder relationships on the basis of mutual trust and cooperation obtain a competitive advantage over firms that do otherwise (Jones 1995). Hence, given that additional stakeholders beyond those emphasized by the classical marketing strategy literature (e.g., customers) can cooperate, threaten, or otherwise affect the firm and its marketing activities (Polonsky, Schuppisser, and Beldona 2002), further research is needed to investigate how a firm's relationships with its primary stakeholders shape

intermediate marketing outcomes such as customer satisfaction and brand equity. Theoretically, these primary stakeholders include customers, employees, suppliers, shareholders, communities, and regulators. Another important avenue for future research centers on the influence of secondary stakeholders, such as the media, that are not vital for the firm's survival but can still mobilize public opinion in favor of or against a firm (Clarkson 1995). By engaging in actions such as civil suits and protests (Eesley and Lenox 2006), these stakeholders can affect the customers' perceptions of the firm.

In addition, this study contributes to the long-standing debate surrounding the determinants of firm performance by examining the relative importance of three levels of analysis across different samples (product versus service firms; low/stable technology versus high technology firms). Consistent with Short et al. (2007), the results provide strong support for the notion that the firm's unique characteristics are the driving forces behind its performance, while the industry structure matters considerably less. However, the analyses of the segmented samples offer additional insights. While the firm effects are stronger in service firms relative to product firms, the industry effects are greater in product firms relative to service firms. One possible explanation for this difference is that by taking actions to learn about competitors' products – such as engaging in reverse engineering initiatives – product firms may be able to imitate their rivals' offerings more easily than can service firms, which have to deal with the intangibility and variability that characterize services (Zeithaml, Parasuraman, and Berry 1985). The difficulty service firms face in copying their rivals (i.e., inimitability) gives successful service firms a greater source of sustained competitive advantage than product firms can achieve.

In a similar vein, the firm level explains a greater amount of variance in the market performance of high tech firms compared with low/stable tech firms, while the industry level has a larger effect on low/stable tech firms in relation to high tech firms. This may be because firms competing in low/stable tech industries do not experience as much change in their business environment as those firms operating in high tech industries. Hence, it is possible for low/stable tech firms to have time to learn about the actions of their rivals and imitate them more easily than high tech firms – given that high tech firms operate in a rapidly changing environment (Teece, Pisano, and Shuen 1997). This greater susceptibility to imitation of low/stable tech firms may be one reason the industry plays a more significant role than it does in high tech firms. While possible explanations for the differences between the samples have been advanced, research exploring the causes of such differences is needed. Future research could draw on institutional theory (e.g., DiMaggio and Powell 1983) to examine whether imitation (i.e., isomorphism) is more prevalent in product and low/stable tech firms, where the industry is a more significant driver of performance than in service and high tech firms.

Managerial Implications

The results of the study offer a number of important implications for managerial practice. First, the results show that, in general, attending to the demands of a broad set of stakeholders beyond those of the customers, employees, and suppliers when developing and implementing marketing strategies pays off. This basic finding suggests that managers should invest resources to gather information about the interests and expectations of all primary stakeholders; to regularly monitor how the firm is meeting these expectations; and to modify the firm's practices to better satisfy the relatively more

important stakeholders. A critical implication is that firms should establish, based on their contingencies, which set of primary stakeholders is critical to firm success in their industry. The broad implication is that all six primary stakeholders (i.e., customers, employees, suppliers, shareholders, communities, and regulators) should be attended to in developing and implementing marketing strategy. However, attending to each primary stakeholder at an equal level – as theory suggests – is likely to be a lost opportunity cost. Instead, emphasizing the needs and expectations of a broad set of stakeholders but not necessarily at the same relative level can be managerially fruitful and significant.

At the broad level, attending to all primary stakeholders appears to be particularly important for firms that compete in the services and low/stable technology industries, as the results indicate that adopting a stakeholder approach to marketing strategy development in these sectors is relatively more important for market performance than adopting a more limited market-driven approach, which places comparatively less emphasis on shareholders, regulators, and communities. This result partially explains why firms such as United Parcel Service, Inc. and Gap, Inc. – which are consistently ranked in *Business Ethics*' "100 Best Corporate Citizens," *Forbes*' "America's Most Reputable Companies," and *Fortune* magazine's "America's Most Admired Companies" for their effective interaction with different stakeholder groups – perform better than other firms in their industry that are not as comprehensive in meeting stakeholders' demands. Therefore, managers should not only value their customer, employee, and supplier relationships as has been the traditional marketing strategy focus, but they should also consider the needs and interests of other primary stakeholders, such as shareholders, regulators, and communities.

Moreover, the study provides further evidence that the firm's idiosyncratic characteristics represent the greatest source of market performance. This suggests that firms should make it a priority to cultivate strategic marketing resources, such as brand names, managerial expertise, and technological knowledge, to maximize market performance. This is especially important for high technology firms (e.g., consumer electronics manufacturers and communication services providers), given that for these firms, market performance is mainly determined by internal organizational factors, while the industry influence is negligible. Hence, managers operating in high technology firms should also invest in dynamic capabilities, such as product development routines, which enable them to continually develop innovative products and services, while promptly responding to the rapidly changing market environment (Teece, Pisano, and Shuen 1997). This, in turn, helps firms outperform their rivals (e.g., Eisenhardt and Martin 2000).

APPENDIX A

Formative Measures of the Stakeholder Dimensions (from the KLD STATS Ratings)

Label in the KLD Database	Stakeholder Dimension and Item Description	Identified as a Strength / Concern in the KLD Database
	Customers	
PRO-str-A	**Quality**. The company has a long-term, well-developed, company-wide quality program, or it has a quality program recognized as exceptional in U.S. industry.	Strength
PRO-str-B	**R&D/Innovation**. The company is a leader in its industry for research and development (R&D), particularly by bringing notably innovative products to market.	Strength
PRO-str-C	**Benefits to Economically Disadvantaged**. The company has as part of its basic mission the provision of products or services for the economically disadvantaged.	Strength
PRO-str-X	**Other Product Strength**. The company's products have notable social benefits that are highly unusual or unique for its industry.	Strength
PRO-con-A	**Product Safety**. The company has recently paid substantial fines or civil penalties, or is involved in major recent controversies or regulatory actions, relating to the safety of its products and services.	Concern
PRO-con-D	**Marketing/Contracting Concern**. The company has recently been involved in major marketing or contracting controversies, or has paid substantial fines or civil penalties relating to advertising practices, consumer fraud, or government contracting.	Concern
	Employees	
DIV-str-A	**CEO**. The company's chief executive officer is a woman or a member of a minority group.	Strength
DIV-str-B	**Promotion**. The company has made notable progress in the promotion of women and minorities, particularly to line positions with profit-and-loss responsibilities in the corporation.	Strength
DIV-str-C	**Board of Directors**. Women, minorities, and/or the disabled hold four seats or more (with no double counting) on the board of directors, or one-third or more of the board seats if the board numbers less than 12.	Strength
DIV-str-D	**Work/Life Benefits**. The company has outstanding employee benefits or other programs addressing work/life concerns, e.g., childcare, elder care, or flextime.	Strength

Label in the KLD Database	Item Description	Identified as a Strength / Concern in the KLD Database
	Employees Continued	
DIV-str-F	**Employment of the Disabled.** The company has implemented innovative hiring programs; other innovative human resource programs for the disabled, or otherwise has a superior reputation as an employer of the disabled.	Strength
DIV-str-G	**Gay & Lesbian Policies.** The company has implemented notably progressive policies toward its gay and lesbian employees. In particular, it provides benefits to the domestic partners of its employees.	Strength
DIV-str-X	**Other Diversity Strength.** The company has made a notable commitment to diversity that is not covered by other KLD ratings.	Strength
DIV-con-B	**Non-Representation.** The company has no women on its board of directors or among its senior line managers.	Concern
DIV-con-X	**Other Diversity Concern.** The company is involved in diversity controversies not covered by other KLD ratings.	Concern
EMP-str-A	**Union Relations.** The company has taken exceptional steps to treat its unionized workforce fairly. KLD renamed this strength from Strong Union Relations.	Strength
EMP-str-C	**Cash Profit Sharing.** The company has a cash profit-sharing program through which it has recently made distributions to a majority of its workforce.	Strength
EMP-str-D	**Employee Involvement.** The company strongly encourages worker involvement and/or ownership through stock options available to a majority of its employees; gain sharing, stock ownership, sharing of financial information, or participation in management decision-making.	Strength
EMP-str-F	**Retirement Benefits Strength.** The company has a notably strong retirement benefits program. KLD renamed this strength from Strong Retirement Benefits.	Strength
EMP-str-G	**Health and Safety Strength.** The company has strong health and safety programs.	Strength
EMP-str-X	**Other Employee Relations Strength.** The company has strong employee relations initiatives not covered by other KLD ratings.	Strength

Label in the KLD Database	Item Description	Identified as a Strength / Concern in the KLD Database
	Employees Continued	
EMP-con-A	**Union Relations**. The company has a history of notably poor union relations. KLD renamed this concern from Poor Union Relations.	Concern
EMP-con-B	**Health and Safety Concern**. The company recently has either paid substantial fines or civil penalties for willful violations of employee health and safety standards, or has been otherwise involved in major health and safety controversies.	Concern
EMP-con-C	**Workforce Reductions.** The company has made significant reductions in its workforce in recent years.	Concern
EMP-con-D	**Retirement Benefits Concern.** The company has either a substantially under-funded defined benefit pension plan, or an inadequate retirement benefits program.	Concern
EMP-con-X	**Other Employee Relations Concern.** The company is involved in an employee relations controversy that is not covered by other KLD ratings.	Concern
	Suppliers	
DIV-str-E	**Women & Minority Contracting.** The company does at least 5% of its subcontracting, or otherwise has a demonstrably strong record on purchasing or contracting, with women-and/or minority-owned businesses.	Strength
HUM-str-G	**Labor Rights Strength.** The company has outstanding transparency on overseas sourcing disclosure and monitoring, or has particularly good union relations outside the U.S., or has undertaken labor rights-related initiatives that KLD considers outstanding or innovative.	Strength
HUM-con-F	**Labor Rights Concern.** The company's operations have had major recent controversies primarily related to labor standards in its supply chain.	Concern

Label in the KLD Database	Item Description	Identified as a Strength / Concern in the KLD Database
	Shareholders	
CGOV-str-A	**Limited Compensation.** The company has recently awarded notably low levels of compensation to its top management or its board members. The limit for a rating is total compensation of less than $500,000 per year for a CEO or $30,000 per year for outside directors.	Strength
CGOV-str-C	**Ownership Strength.** The company owns between 20% and 50% of another company KLD has cited as having an area of social strength, or is more than 20% owned by a firm that KLD has rated as having social strengths. When a company owns more than 50% of another firm, it has a controlling interest, and KLD treats the second firm as if it is a division of the first.	Strength
CGOV-str-D	**Transparency Strength.** The company is particularly effective in reporting on a wide range of social and environmental performance measures, or is exceptional in reporting on one particular measure.	Strength
CGOV-str-X	**Other Corporate Governance Strength.** The company has a unique and positive corporate culture, or has undertaken a noteworthy initiative not covered by KLD's other corporate governance ratings.	Strength
CGOV-con-B	**High Compensation.** The company has recently awarded notably high levels of compensation to its top management or its board members. The limit for a rating is total compensation of more than $10 million per year for a CEO or $100,000 per year for outside directors.	Concern
CGOV-con-F	**Ownership Concern.** The company owns between 20% and 50% of a company KLD has cited as having an area of social concern, or is more than 20% owned by a firm KLD has rated as having areas of concern. When a company owns more than 50% of another firm, it has a controlling interest, and KLD treats the second firm as if it is a division of the first.	Concern
CGOV-con-G	**Accounting Concern.** The company is involved in significant accounting-related controversies.	Concern
CGOV-con-H	**Transparency Concern.** The company is distinctly weak in reporting on a wide range of social and environmental performance measures.	Concern
CGOV-con-X	**Other Corporate Governance Concern.** The company is involved with a controversy not covered by KLD's other corporate governance ratings.	Concern

Label in the KLD Database	Item Description	Identified as a Strength / Concern in the KLD Database
	Regulators	
CGOV-str-E	**Political Accountability Strength.** The company has shown markedly responsible leadership on public policy issues and/or has an exceptional record of transparency and accountability concerning its political involvement in state or federal-level U.S. politics, or in non-U.S. politics.	Strength
COM-con-D	**Tax Disputes.** The company has recently been involved in major tax disputes involving Federal, state, local or non-U.S. government authorities, or is involved in controversies over its tax obligations to the community.	Concern
CGOV-con-I	**Political Accountability.** The company has been involved in noteworthy controversies on public policy issues and/or has a very poor record of transparency and accountability concerning its political involvement in state or federal-level U.S. politics, or in non-U.S. politics.	Concern
DIV-con-A	**Controversies.** The company has either paid substantial fines or civil penalties as a result of affirmative action controversies, or has otherwise been involved in major controversies related to affirmative action issues.	Concern
ENV-con-A	**Hazardous Waste.** The company's liabilities for hazardous waste sites exceed $50 million, or the company has recently paid substantial fines or civil penalties for waste management violations.	Concern
ENV-con-B	**Regulatory Problems.** The company has recently paid substantial fines or civil penalties for violations of air, water, or other environmental regulations, or it has a pattern of regulatory controversies under the Clean Air Act, Clean Water Act or other major environmental regulations.	Concern
PRO-con-E	**Antitrust.** The company has recently paid substantial fines or civil penalties for antitrust violations such as price fixing, collusion, or predatory pricing, or is involved in recent major controversies or regulatory actions relating to antitrust allegations.	Concern

Label in the KLD Database	Item Description	Identified as a Strength / Concern in the KLD Database
	Community	
COM-str-A	**Charitable Giving.** The company has consistently given over 1.5% of trailing three-year net earnings before taxes (NEBT) to charity, or has otherwise been notably generous in its giving.	Strength
COM-str-B	**Innovative Giving.** The company has a notably innovative giving program that supports nonprofit organizations, particularly those promoting self-sufficiency among the economically disadvantaged. Companies that permit nontraditional federated charitable giving drives in the workplace are often noted in this section as well.	Strength
COM-str-C	**Support for Housing.** The company is a prominent participant in public/private partnerships that support housing initiatives for the economically disadvantaged, e.g., the National Equity Fund or the Enterprise Foundation.	Strength
COM-str-D	**Support for Education.** The company has either been notably innovative in its support for primary or secondary school education, particularly for those programs that benefit the economically disadvantaged, or the company has prominently supported job-training programs for youth.	Strength
COM-str-F	**Non-US Charitable Giving.** The company has made a substantial effort to make charitable contributions abroad, as well as in the U.S. To qualify, a company must make at least 20% of its giving, or have taken notably innovative initiatives in its giving program, outside the U.S.	Strength
COM-str-G	**Volunteer Programs.** The company has an exceptionally strong volunteer program.	Strength
COM-str-X	**Other Community Strength.** The company either has an exceptionally strong in-kind giving program or engages in other notably positive community activities.	Strength
COM-con-A	**Investment Controversies.** The company is a financial institution whose lending or investment practices have led to controversies, particularly ones related to the Community Reinvestment Act.	Concern
COM-con-B	**Negative Economic Impact.** The company's actions have resulted in major controversies concerning its economic impact on the community. These controversies can include issues related to environmental contamination, water rights disputes, plant closings, "put-or-pay" contracts with trash incinerators, or other company actions that adversely affect the quality of life, tax base, or property values in the community.	Concern

Label in the KLD Database	Item Description	Identified as a Strength / Concern in the KLD Database
	Community Continued	
COM-con-X	**Other Community Concern.** The company is involved with a controversy that has mobilized community opposition, or is engaged in other noteworthy community controversies.	Concern
ENV-str-A	**Beneficial Products and Services.** The company derives substantial revenues from innovative remediation products, environmental services, or products that promote the efficient use of energy, or it has developed innovative products with environmental benefits. (The term "environmental service" does not include services with questionable environmental effects, such as landfills, incinerators, waste-to-energy plants, and deep injection wells.)	Strength
ENV-str-B	**Pollution Prevention.** The company has notably strong pollution prevention programs including both emissions reductions and toxic-use reduction programs.	Strength
ENV-str-C	**Recycling.** The company either is a substantial user of recycled materials as raw materials in its manufacturing processes, or a major factor in the recycling industry.	Strength
ENV-str-D	**Clean Energy.** The company has taken significant measures to reduce its impact on climate change and air pollution through use of renewable energy and clean fuels or through energy efficiency. The company has demonstrated a commitment to promoting climate-friendly policies and practices outside its own operations.	Strength
ENV-str-X	**Other Environment Strength.** The company has demonstrated a superior commitment to management systems, voluntary programs, or other environmentally proactive activities.	Strength
ENV-con-C	**Ozone Depleting Chemicals.** The company is among the top manufacturers of ozone depleting chemicals such as HCFCs, methyl chloroform, methylene chloride, or bromines.	Concern
ENV-con-D	**Substantial Emissions.** The company's legal emissions of toxic chemicals (as defined by and reported to the EPA) from individual plants into the air and water are among the highest of the companies followed by KLD.	Concern
ENV-con-E	**Agricultural Chemicals.** The company is a substantial producer of agricultural chemicals, i.e., pesticides or chemical fertilizers.	Concern

Label in the KLD Database	Item Description	Identified as a Strength / Concern in the KLD Database
	<u>Community</u> Continued	
HUM-str-D	**Indigenous Peoples Relations Strength.** The company has established relations with indigenous peoples near its proposed or current operations (either in or outside the U.S.) that respect the sovereignty, land, culture, human rights, and intellectual property of indigenous peoples.	Strength
HUM-con-G	**Indigenous Peoples Relations Concern.** The company has been involved in serious controversies with indigenous peoples (either in or outside the U.S.) that indicate the company has not respected the sovereignty, land, culture, human rights, and intellectual property of indigenous peoples.	Concern

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Essay 2

STAKEHOLDERS, CUSTOMER SATISFACTION, AND PERFORMANCE

Firms that respond to the interests of their stakeholders do not operate in a vacuum. Instead, they operate within an environment that consists of other firms responding to their stakeholders as well (e.g., DiMaggio and Powell 1983). Institutional theory holds that to attain legitimacy, a firm tends to be isomorphic to other firms in its environment, with firms resembling each other and behaving similarly over time (e.g., Dacin 1997). This suggests that the way a particular firm treats its stakeholders influences the manner in which other firms facing similar conditions deal with their stakeholders. As such, this paper examines whether the supply chain participants' stakeholder focus along with that of a focal firm's major competitors in the marketplace shape the firm's stakeholder focus. Specifically, a firm's *stakeholder focus* is defined as the amount of attention, resources, and time the firm devotes to addressing the interests of multiple stakeholder groups (cf. Mitchell, Agle, and Wood 1997).

Supply chain entities such as business-to-business customers, primary suppliers, and strategic partners (e.g., Simchi-Levi, Kaminsky, and Simchi-Levi 2003), along with major competitors which represent a dynamic element of the marketplace (e.g., Porter 1996), affect the focal firm's strategic mindset, tactical activities, and even sometimes cultural makeup (e.g., Mintzberg, Quinn, and Ghosal 1998). Further, according to institutional theory, different firms' strategies can converge via three mechanisms – coercive, mimetic, and normative (DiMaggio and Powell 1983). Coercive isomorphism is driven by the problem of legitimacy in exchange relationships where firms imitate other firms that they are dependent on in order to attain legitimacy. Mimetic isomorphism

arises under conditions of environmental uncertainty, whereby firms mimic other entities, especially those they regard as more successful or those with whom they have boundary-spanning ties (e.g., Galaskiewicz and Wasserman 1989; McFarland, Bloodgood, and Payan 2008). Normative isomorphism stems from the propagation of norms through social networks, where members of a firm learn what practices are considered appropriate within the field (e.g., Guler, Guillen, and Macpherson 2002).

Customer satisfaction – a measure of a marketing outcome which is characterized as an overall assessment of a firm's offerings (e.g., Anderson, Fornell, and Rust 1997) – is the key intermediate marketing outcome in this study. A firm's stakeholder focus is related to customer satisfaction in that information about satisfaction projects what the firm has done to its customers within the dynamics of the overall marketplace and the firm's multiple stakeholders (Fornell 2007, p. 8). As such, this study investigates the impact of the firm's stakeholder focus on customer satisfaction. Additionally, previous research provides ample evidence that customer satisfaction leads to superior performance (e.g., Anderson, Fornell, and Lehmann 1994), but at the same time, there is evidence suggesting that an excessive focus on customer satisfaction can be counterproductive as it can hurt the firm's bottom-line performance (e.g., Anderson, Fornell, and Rust 1997). Hence, this paper reexamines the nature of the customer satisfaction–performance relationship with a particular focus on a potential non-linear relationship between the variables.

The paper is structured as follows. The next section reviews the literature that underscores the importance of attending to the interests of multiple stakeholder groups. Then, based on an integration of institutional theory, stakeholder theory, and the

literatures on market orientation and customer satisfaction, the paper develops a number of hypotheses delineating a select set of antecedents and consequences of a focal firm's stakeholder focus and the moderating role of R&D. Regarding the latter, it delineates theoretical logic that the impact of the supply chain participants' and a competitor's stakeholder focus on the focal firm's stakeholder focus is moderated by the firm's R&D intensity. Through R&D, a firm obtains information by its own means, which both lessens dependence on other firms to acquire this resource and reduces the degree of uncertainty faced by a firm. Institutional theory suggests that lower levels of interorganizational dependence and uncertainty decrease the firm's degree of imitation of supply chain entities and competitors (e.g., DiMaggio and Powell 1983). Then, the following section describes the data collection, measures, and analyses involving a lagged structure of secondary data from four sources over a four-year period (2004-2007). The final section presents the results and discusses their implications for research and managerial practice.

CONCEPTUAL FRAMEWORK AND HYPOTHESES

The stakeholder approach seeks to broaden management's vision of its responsibilities beyond profit maximization to incorporate the claims of non-stockholding groups (e.g., Freeman 1984; Mitchell, Agle, and Wood 1997). In particular, stakeholder theory views the firm as "an organizational entity through which numerous and diverse participants accomplish multiple, and not always entirely congruent, purposes" (Donaldson and Preston 1995, p. 70). Given the disparate interests of these various stakeholders, firms are unlikely to fulfill all the demands of each stakeholder group (Jawahar and McLaughlin 2001). Toward this end, stakeholder theory is intended to

address the key question, "which groups are stakeholders deserving or requiring management attention, and which are not?" (Mitchell, Agle, and Wood 1997, p. 855).

Stakeholder theory has developed along different research traditions. According to Donaldson and Preston (1995), there are three approaches to stakeholder theory – descriptive/empirical, normative, and instrumental – which are distinct, yet mutually supportive. The descriptive/empirical approach focuses on the actual behaviors of firms. It seeks to describe how firms actually interact with stakeholders. The normative approach is prescriptive as it identifies moral guidelines that dictate how firms should treat stakeholders. One of the central tenets of this approach is that firms should attend to the claims of *all* of their stakeholders, not only to those of their shareholders (e.g. Jones and Wicks 1999). The instrumental approach to stakeholder theory is intended to describe what will happen if firms behave in a particular way (Jones 1995). It is used to identify the linkage between stakeholder management and corporate objectives such as profitability and growth (Donaldson and Preston 1995).

In this study, the instrumental approach to stakeholder theory is adopted given that it provides a framework for examining the relationship between stakeholder management and performance (Donaldson and Preston 1995). The instrumental stakeholder theory proposes that firms that develop mutually trusting and cooperative relationships with their stakeholders will have a competitive advantage over those firms that do not (Jones 1995). Clarkson (1995) argues that a firm's survival and performance is a function of the ability of its managers to create sufficient wealth, value, or satisfaction for all its primary stakeholder groups, without favoring one group at the

expense of others. In this sense, the claims of all legitimate stakeholders are of intrinsic value, and no set of claims is assumed to dominate the rest (e.g. Jones and Wicks 1999).

Over the years, several authors have provided different definitions of what constitutes a *stakeholder*, yet Freeman's original definition remains the most widely used. He defines stakeholder as "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman 1984, p. 46). This definition reflects a broad view of stakeholders, which captures the empirical reality that firms can be affected by, or they can affect, virtually anyone (Mitchell, Agle, and Wood 1997). On the other hand, narrow views of stakeholders accommodate the practical reality that resources, attention, and time to deal with external constraints are limited.

According to Mitchell, Agle, and Wood (1997), stakeholders can be identified by their possession of at least one of three key attributes: power, legitimacy, and urgency. Power is the extent to which an entity can impose its will in the relationship through coercive, utilitarian, or normative means. Legitimacy is defined as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman 1995, p. 574). Urgency refers to the degree to which stakeholder demands require immediate attention. It is based on both time sensitivity (i.e., the extent to which managerial delay is unacceptable to the stakeholder) and criticality (i.e., the importance of the demands to the stakeholder). The amount of attention management should pay to a particular stakeholder is a function of the combination of power, legitimacy, and urgency. Managers will give low priority to the claims of a stakeholder who possesses only one

attribute, moderate priority if two attributes are present and high priority if all three are held.

Based on their boundaries (e.g., Mitchell, Agle, and Wood 1997), stakeholders can be classified into two main groups: primary and secondary (e.g., Clarkson 1995). Primary stakeholder groups are those without whose continued participation the firm cannot survive. They include shareholders, employees, customers, and suppliers, along with what is known as the public stakeholder groups, which are comprised of governments and communities that impact the operations of the firm by providing infrastructure, regulating its activities, and requiring tax payments (Clarkson 1995). The logic behind designating these six groups as important stakeholders that can influence the firm can be explained by resource dependence theory (e.g., Pfeffer and Salancik 1978). According to this theory, a firm is dependent on environmental actors who control resources that are critical for the continued survival of the firm. Specifically, a firm depends on customers for revenues, employees for labor, suppliers for inputs (e.g., Porter 2008), shareholders for capital (e.g., Day and Fahey 1988), communities for natural resources (e.g., Porter and Kramer 2006), and regulators for funds and access to markets (e.g., Birnbaum 1985). It is this dependence of firms on environmental actors for resources that confers those actors' power over a firm (e.g., Frooman 1999). The possession of power to influence the firm's actions automatically denominates the entity as a stakeholder (Mitchell, Agle, and Wood 1997).

In contrast, secondary stakeholder groups, such as the media and special interest groups, do not have a contractual obligation with the firm nor exercise any legal authority over the firm (Eesley and Lenox 2006). These groups influence or are influenced by the

firm but are not vital for the firm's survival (Clarkson 1995). As such, this study focuses on the six primary stakeholder groups: customers, employees, suppliers, shareholders, regulators, and the community. The importance of these six stakeholder groups in marketing is explained next.

Customers. The significance for firms to focus on customers has been discussed extensively in the marketing literature. For example, Webster (1992) identifies customer relationships as the most important business asset. He maintains that it is critical for firms to make long-term commitments to nurturing customer relationships with quality, service, and innovation. Similarly, Deshpande, Farley, and Webster (1993, p. 27) define a customer orientation as "the set of beliefs that puts the customer's interests first." A customer orientation requires the firm to understand its target customers in order to continuously deliver superior value for them (Narver and Slater 1990). This involves taking actions on the basis of market intelligence pertaining to current and future customer needs (Kohli and Jaworski 1990). Those businesses that devote significant resources to understanding their customers and competitors and coordinate the activities of the different functions of the business for an integrated value-creation effort are rewarded with superior profitability, sales growth, and new product success relative to other firms (Slater and Narver 1994).

Employees. Employees are "the source of a company's success" (Henriques and Sadorsky 1999, p. 89). Workers who are highly satisfied with their jobs are perceived by customers as more balanced and pleased with their environment. Such workers have a positive influence on customer satisfaction (e.g., Homburg and Stock 2004). This is particularly important in service firms, where employees typically have direct contact

with customers (e.g., Heskett et al. 1994). In addition, salespeople's job satisfaction has an impact on the quality of customer interaction (e.g., Homburg and Stock 2004). For these reasons, it is important for the firm to attend to the interests of its employees and keep them satisfied with their jobs.

Suppliers. Relationships with suppliers can be instrumental to the firm's ability to improve its performance (e.g., Buchanan 1992). For example, the process of collaboration between a firm and its supplier has been identified as a system resource of the firm that enhances performance and competitive advantages through coordination efforts and idiosyncratic investments (Jap 1999). By cultivating a collaborative culture, establishing objectives for joint learning, and developing relational trust, management can promote relationship learning (Selnes and Sallis 2003). This type of learning can improve performance, by enabling customers and suppliers to identify means through which to enhance quality and increase flexibility. As an extension, this "knowledge interface" can also be managed to produce both incremental and radical innovations (Roy, Sivakumar, and Wilkinson 2004). In addition, a supplier can help the firm achieve a competitive advantage by driving down a firm's total costs (Cannon and Homburg 2001). On the other hand, failure to comply with a supplier's demands can negatively affect a firm, as suppliers may stop their delivery of a key input (Henriques and Sadorsky 1999).

Shareholders. Firms have an important obligation to shareholders – to maximize their wealth (e.g., Day and Fahey 1988; Rao and Bharadwaj 2008). As such, top management increasingly requires that marketing move away from exclusively focusing on measures such as market share and sales growth to incorporating shareholder value

creation as a criterion for the evaluation of strategic initiatives (e.g., Day and Fahey 1988; Srivastava, Shervani, and Fahey 1998). In this regard, marketing accountability is achieved only when a marketing action that leads to intermediate outcomes such as customer satisfaction, loyalty, and market share also contributes to the enhancement of shareholder wealth (Rao and Bharadwaj 2008).

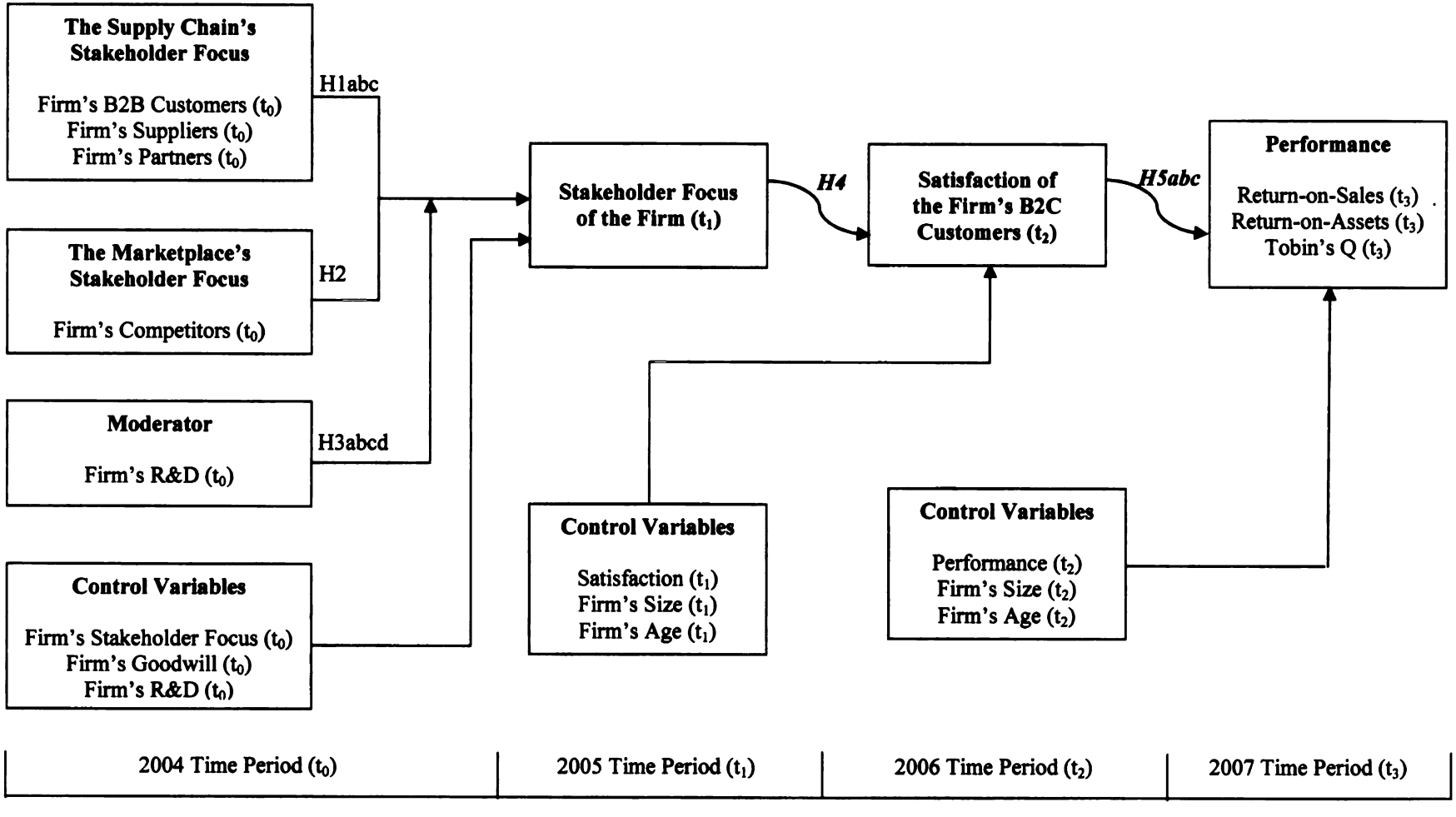
Regulators. Regulators are "important stakeholders that exert external political and economic forces on the firm" (Banerjee, Iyer and Kashyap 2003, p. 109). Constraints imposed by regulators have an impact on a variety of marketing activities including, for example, the design of products (Bloch 1995), advertising (Pechmann 1996), and packaging (Morgan 1988). For instance, federal regulations require over-the-counter pharmaceuticals to be packaged in tamper-resistant containers (Morgan 1988). Compliance with these and other regulations impose additional costs, but as opposed to the demands of other stakeholder groups, compromise usually does not occur in this area; firms must comply with regulator demands (e.g., Bloch 1995).

Community. Community stakeholders include nongovernmental organizations, communities formed because of their geography (i.e., location), and other community groups organized around a political or social cause (Kassinis and Vafeas 2006). These stakeholders are influential because of their ability to mobilize public opinion in favor of or against a firm's actions (Henriques and Sadorsky 1999). As such, marketing actions with a social dimension, such as contributing to local charities or sponsoring little league sports teams, typically increase consumer support for the organization (Handelman and Arnold 1999). On the other hand, disregarding community interests may cause a loss of consumer support in the form of boycotts.

Given the important role the six primary stakeholder groups play in marketing, it is imperative to investigate the factors that drive a firm to attend to its primary stakeholders and the implications of addressing the stakeholders' interests. Against this backdrop, the development of the model depicted in Figure 6 is rooted in institutional theory, stakeholder theory, and the literatures on market orientation and customer satisfaction to identify critically important antecedents and select consequences of a firm's stakeholder focus. As such, the model in Figure 6 is based on an integration of theories and literature bases, captured within the definitional boundaries of a firm's stakeholder focus (i.e., the amount of attention, resources, and time the firm devotes to addressing the interests of multiple stakeholder groups – Mitchell, Agle, and Wood 1997), and set within the framework of six primary stakeholder groups (i.e., customers, employees, suppliers, shareholders, regulators, and the community). Previous research provides evidence that these six stakeholder groups are crucial for the realization of the firm's objectives (Clarkson 1995) and the firm's achievement of superior performance (Fornell et al. 2006). The remaining portion of this section provides the rationale to support the links depicted in Figure 6.

FIGURE 6

A Model of Stakeholder Focus, Customer Satisfaction, and Performance



Supply Chain Members' Stakeholder Focus and the Effects on the Focal Firm

The link between the supply chain's stakeholder focus (i.e., involving the three entities of a firm's business-to-business customers, primary suppliers, and strategic partners) and the firm's stakeholder focus can be explained by institutional theory (e.g., DiMaggio and Powell 1983; Scott 1987). Institutional theory holds that to attain legitimacy, a firm tends to be isomorphic to other firms in its environment and, as a result, over time firms within the same population will resemble each other (e.g., Dacin 1997). DiMaggio and Powell (1983) identify three mechanisms – coercive, mimetic, and normative pressures – through which such resemblance of firms occurs.

Coercive isomorphism is driven by two different forces – political influence and the problem of legitimacy (e.g., DiMaggio and Powell 1983). The latter is particularly relevant within the context of this study. Specifically, to gain legitimacy in exchange relationships, firms imitate other firms that they are dependent on (cf. McFarland, Bloodgood, and Payan 2008). As such, interorganizational dependence is a key factor in isomorphic change. Since a firm depends on its business-to-business customers, primary suppliers, and strategic partners to achieve firm goals, the firm will mimic the structure, climate, and behavioral focus of these other firms (DiMaggio and Powell 1983).

Mimetic isomorphism arises under conditions of environmental uncertainty (e.g., DiMaggio and Powell 1983; McFarland, Bloodgood, and Payan 2008). When faced with ambiguous situations, firms model themselves after other firms in their field, especially after those they regard as more legitimate or successful (e.g., Lieberman and Asaba 2006). Firms are also likely to mimic other firms in their environment with whom they have boundary-spanning ties (Galaskiewicz and Wasserman 1989). Managers who have

ties to peers in other firms are able to see how such firms deal with environmental constraints and "learn what is and what is not acceptable to various stakeholders" (Galaskiewicz and Wasserman 1989, p. 456). This learning, in turn, influences the way they will behave themselves in the marketplace.

Normative isomorphism results from the diffusion of ideas and normative rules via social networks (e.g., Mizruchi and Fein 1999). Normative rules dictate the organizational and professional behavior that is considered appropriate within the field (e.g., Guler, Guillen, and Macpherson 2002). In particular, professional and trade associations often serve as vehicles for the establishment and dissemination of such normative rules (DiMaggio and Powell 1983). Through these professional networks, members of one firm influence those of another (e.g., Mizruchi and Fein 1999).

Support for the notion that firms imitate other firms in their environment can be found in several studies. For example, McFarland, Bloodgood, and Payan (2008) examine how firm behaviors become imitated among supply chain members and find that institutional pressures influence the propagation of such behaviors. Specifically, these authors find that imitation between firms in the supply chain occurs under conditions of environmental uncertainty, and that the degree of imitation depends on the perceived similarity and frequency of contact between boundary-spanning personnel. In addition, Siguaw, Simpson, and Baker (1998) study the influence of a supplier's market orientation on the firm's market orientation. They find that the market orientation of the supplier has a direct effect on the market-oriented behaviors exhibited by the focal firm. This discussion suggests that a firm's interactions with its business-to-business customers, primary suppliers, and strategic partners will induce the firm to be influenced by and

imitate these supply chain members' behaviors (cf. McFarland, Bloodgood, and Payan 2008). Therefore:

H1: The firm's stakeholder focus is *positively* affected by the stakeholder focus of the firm's (a) business-to-business customers, (b) primary suppliers, and (c) strategic partners.

Competitors' Stakeholder Focus and the Effect on the Focal Firm

It is argued that the major competitors' stakeholder focus will influence the stakeholder focus of the firm given the importance of such competitors in the marketplace in which the firm operates. Support for this relationship can be established using institutional theory and the literature on market orientation. As is suggested by institutional theory, mimetic and normative pressures lead firms within the same population to become increasingly similar to one another (DiMaggio and Powell 1983). Specifically, mimetic processes cause firms to imitate other firms in their field that they perceive to be more successful or legitimate (e.g., DiMaggio and Powell 1983; Greve 2000; Haveman 1993). As Grewal and Dharwadkar (2002) point out, the notion of mimetic pressures is consistent with the competitive strategy literature, which suggests that to increase its competitiveness, a firm mimics the planning procedures and decision making routines of successful companies (e.g., Dickson 1992). In mimetic isomorphism, the diffusion of processes and behaviors may occur unintentionally, through employee transfer, or explicitly by seeking advice from consulting firms (DiMaggio and Powell 1983). Similarly, normative pressures compel organizations to adopt certain practices that are held sacred in their field (e.g., Galaskiewicz and Wasserman 1989).

A number of studies empirically demonstrate that institutional pressures lead firms to imitate their competitors. In a study about diversification into new markets,

Haveman (1993) finds that firms mimic the behavior of successful competitors by following them into new markets. Similarly, Greve (2000) studies the factors that affect market niche entry decisions and finds a link between mimetic isomorphism and niche choices. Specifically, Greve (2000) concludes that small organizations observe the behaviors of large organizations and then imitate those behaviors to reap advantages in the marketplace. In addition, Beliveau, Cottrill, and O'Neill (1994) examine the factors that predict corporate social responsibility (CSR) and find that a firm is more likely to engage in CSR if other firms in its industry have done so.

The second relevant research stream addressing the relationship between competitors' stakeholder focus and the firm's stakeholder focus is the literature on market orientation (e.g., Kohli and Jaworski 1990; Narver and Slater 1990). Market orientation emphasizes the ability of the firm to primarily learn about its current and potential customers and competitors to be able to continuously sense and respond to trends in the marketplace (Day 1994). Narver and Slater (1990) identify competitor orientation (i.e., the firm's understanding of the short-term strengths and weaknesses and long-term strategies of its competitors) as a key component of a market orientation. This involves generating and disseminating intelligence about competitors and taking action in response to the gathered intelligence (Kohli and Jaworski 1990). For example, Jaworski and Kohli (1993) incorporate competitors into assessments of intelligence generation (e.g., whether intelligence on a firm's competitors is generated independently by several departments), intelligence dissemination (e.g., the time it takes for one department to alert others about important competitor information), and responsiveness (e.g., the firm's response to competitors' price changes). From this perspective, if a firm that constantly monitors

competitors' actions learns that its rivals are effectively catering to multiple constituents, it will be prompted to respond to market trends by attending to the interests of different stakeholders.

Building on institutional theory and the market orientation literature, the theoretical rationale is compelling that if the firm's competitors are focused on the interests of multiple stakeholders and, for example, offer warranties for their products, provide ample benefits to their employees, have long-term commitments with their suppliers, and are actively engaged in community activities (e.g., sponsoring little league sports teams), the firm will respond by engaging in similar behaviors. As such, the stakeholder focus of the firm's major competitors should shape the focal firm's stakeholder focus.

H2: The firm's stakeholder focus is *positively* affected by the stakeholder focus of the firm's major competitors.

The Moderating Effect of R&D on the Stakeholder Relationships

In this study, the Financial Accounting Standards Board's (1974) definition of R&D is adopted as a comprehensive way to define boundaries around the construct (and to align it with the data obtained from COMPUSTAT). In this context, "*research* is planned search or critical investigation aimed at discovery of new knowledge with the hope that such knowledge will be useful in developing a new product or service or new process or technique or in bringing about a significant improvement to an existing product or process" while "*development* is the translation of research findings or other knowledge into a plan or design for a new product or process or for a significant improvement to an existing product or process whether intended for sale or use."

Within these definitional boundaries, research and development incorporate key properties that are also at the core of the concepts of market orientation (Jaworski and Kohli 1993), market-based learning (Sinkula 1994), and innovation (Han, Kim, and Srivastava 1998; Hurley and Hult 1998) that have become staples in the strategic marketing literature (e.g., Day 1994). For example, "discovery of new knowledge with the hope that such knowledge will be useful in developing a new product or service" in the definition of "research" parallels market orientation's focus on "generation of market intelligence", as does "translation of...knowledge into a...new product" (responsiveness in market orientation terms) in the definition of "development" (Jaworski and Kohli 1993, p. 54).

The considerable overlap that exists between R&D and marketing (e.g., Griffin and Hauser 1996) has led to the examination of R&D in a number of marketing studies (e.g., Dutta, Narasimhan, and Rajiv 1999; Li and Calantone 1998; Luo and Donthu 2006). Dutta, Narasimhan, and Rajiv (1999) find that the interaction of R&D and marketing capabilities is an important determinant of firm performance. In a study of the impact of market knowledge competence on new product advantage, Li and Calantone (1998) find that a firm's R&D strength has a positive effect on new product advantage. In addition, they find that top management's perceived importance of market knowledge positively influences R&D strength. Li and Calantone (1998) maintain that R&D strength is crucial to convert market knowledge into a tangible product offering. In the context of our study, the importance of R&D lies in using the knowledge the firm has generated about its stakeholders to develop new products, services, processes, or techniques that satisfy their

claims. For instance, if regulators require that automakers meet a fuel efficiency standard for their models, firms can engage in R&D to comply with this demand.

As previously discussed, one central idea underlying institutional theory is that interorganizational dependence and uncertainty lead firms to imitate others in their field (e.g., DiMaggio and Powell 1983). Theoretically, as developed in H1 and H2, this means that the stakeholder focus of a firm's business-to-business customers, primary suppliers, strategic partners, and major competitors will shape the stakeholder focus of a firm. However, it is argued that this relationship is contingent on the focal firm's intensity of R&D for a number of reasons. According to Cohen and Levinthal (1989), the objective of R&D is to "generate new information [and to] ...enhance the firm's ability to assimilate and exploit existing information" (p. 569). Information is a strategic resource (e.g., Barney 1991) that can supply knowledge to the firm which can then be used to attend to the interests of different stakeholders through the development of new and innovative products, services, processes, or techniques.

As a firm proactively acquires such information by its own means via R&D, it will become less dependent on its business-to-business customers, primary suppliers, and strategic partners to obtain this important resource (e.g., Pfeffer and Salancik 1978). On the basis of institutional theory, less dependence of a firm on other firms will lower its level of imitation (e.g., DiMaggio and Powell 1983). This suggests that as a firm engages in R&D, its stakeholder focus will be less affected by the stakeholder focus of other entities in the marketplace. Similarly, information obtained through R&D lessens the degree of environmental uncertainty faced by a firm, which will ultimately decrease the firm's imitation of supply chain entities and competitors. Therefore, the more a firm

invests in R&D, the less it will be influenced by the stakeholder focus of its business-to-business customers, primary suppliers, strategic partners, and major competitors. Stated formally:

> H3: The firm's research and development intensity moderates the relationship *negatively* between the firm's stakeholder focus and the stakeholder focus of the firm's (a) business-to-business customers, (b) primary suppliers, (c) strategic partners, and (d) major competitors.

The Relationship between Stakeholder Focus and Customer Satisfaction

According to the instrumental approach to stakeholder theory, firms that effectively manage stakeholder relationships will enjoy advantages over those that do not (e.g., Jones 1995). Support for this aspect of stakeholder theory can be found in several studies. For example, Berman et al. (1999) find that managerial attention to employees and customers enhances firm outcomes. Similarly, Hillman and Keim (2001) provide empirical evidence that stakeholder management leads to shareholder wealth creation. However, one of the most intriguing effects of a firm adopting a stakeholder focus is that on customer satisfaction. Customer satisfaction signifies a critically important marketing outcome that links strategy and tactics (e.g., stakeholder focus) with performance implications for firms (Fornell et al. 2006). In the context of viewing the "customer as an asset," a firm's stakeholder focus is then theoretically connected to customer satisfaction in that information about customer satisfaction tells us what the company has done to its customers within the dynamics of the overall marketplace and the firm's multiple stakeholders (Fornell 2007, p. 8). In addition, given that customer satisfaction is an important predictor of firm performance (e.g., Anderson, Fornell, and Lehmann 1994), it follows that a firm's stakeholder focus as a part of its strategy and tactics will influence customer satisfaction (cf. Berman et al 1999; Hillman and Keim 2001). However, efforts

directed at multiple stakeholders are subject to diminishing, and ultimately, decreasing returns.

At low levels of stakeholder focus, firms are not attending to the interests of their stakeholders, which would result in low customer satisfaction. For example, research has found that engaging in behavior deemed unethical by customers negatively affects these customers' judgments of perceived fairness, which in turn, lowers the level of customer satisfaction (e.g., Ingram, Skinner, and Taylor 2005). For instance, a firm that exploits its employees in foreign plants (e.g., sweatshop labor) or harms the community where it has operations will likely generate disapproval among its customers, thereby reducing the level of customer satisfaction. In less extreme cases, a firm that does not pay attention to the claims of its stakeholders may have employees who are not satisfied with their jobs, and as a result, treat the customers poorly (cf. Homburg and Stock 2004); alternatively, the firm may offer low quality products that easily break down and are not covered by warranty. On the basis of the expectations-disconfirmation paradigm (e.g., Oliver 1980), in these examples, actual outcomes fall short of expectations (i.e., negative disconfirmation), which leads customers to be dissatisfied with the consumption experience (e.g., Szymanski and Henard 2001).

As the firm's level of stakeholder focus starts increasing, customer satisfaction will improve for a number of reasons. For example, at higher levels of stakeholder focus, the firm acts in accordance with the community's social and cultural norms. It may engage in institutional actions such as becoming involved with the community, which increases customers' support for the firm (Handelman and Arnold 1999). Similarly, a firm with high levels of stakeholder focus is likely to respond to its stakeholder

obligations with corporate social responsibility initiatives, which have been found to positively influence customer satisfaction (Luo and Bhattacharya 2006). Further, a stakeholder-focused firm treats its employees with respect, compensates them fairly, and provides high quality products at competitive prices. These factors enhance the consumption experience, and customers will be satisfied as the actual outcomes likely meet or exceed prior expectations (e.g., Szymanski and Henard 2001).

However, devoting an excessive amount of resources, attention, and time to stakeholder relationships is not optimal. The ongoing development and maintenance of such relationships is costly for the firm. As a firm's stakeholder focus reaches a high level, the firm will inevitably be incurring direct costs in a number of initiatives the customer may not be aware of such as contributing to charities in remote locations, or indirect costs because of failing to devote attention to critical areas of concern to make the firm prosperous. Such overemphasis in certain areas can lead to, for example, an increase in the prices customers have to pay (e.g., Monroe 1973). From the customer's viewpoint, if the offering remains the same, while the price increases, satisfaction will decrease. This follows from the literature dealing with the antecedents of customer satisfaction, which models value (i.e., the extent to which an offering can provide customers what they want relative to the total price they pay) as a predictor of satisfaction (e.g., Churchill and Surprenant 1982; Szymanski and Henard 2001).

Taken together, increases in the level of stakeholder focus by a firm will enhance customer satisfaction up to an optimal point. Beyond this point, the costs of satisfying the many demands of the multiple stakeholders will translate to an increase in the prices that the customers have to pay for the firm's products and services. This, in turn, will lower a

customer's satisfaction with the product or service offering. Consistent with this conceptual logic and the instrumental approach to stakeholder theory, the link between a firm's stakeholder focus and customer satisfaction includes an inflection point where achieving a greater degree of stakeholder focus adversely affects customer satisfaction. Therefore:

H4: The stakeholder focus of the firm has an inverted U-shaped relationship with the satisfaction of the firm's end customers (i.e., there is an inflection point where achieving a greater degree of stakeholder focus adversely affects customer satisfaction as perceived by the firm's end customers).

The Relationship between Customer Satisfaction and Firm Performance

Prior research in marketing provides ample evidence that highly satisfied customers bring in economic benefits for firms (e.g., Anderson, Fornell, and Lehmann 1994). These customers are more likely to engage in favorable word-of-mouth communication (e.g., Fornell 1992; Van Dolen, Dabholkar, and de Ruyter 2007), repurchase the firm's products and services (e.g., Heitmann, Lehmann, and Herrmann 2007; Maxham and Netemeyer 2002; Szymanski and Henard 2001), be willing to pay more for them (e.g., Homburg, Koschate, and Hoyer 2005), buy more frequently and in greater quantity, and they are more tolerant to price increases (Anderson, Fornell, and Lehmann 1994). In addition, a high level of customer satisfaction often protect the firm's market share from competitors, reduce transaction costs and the costs of attracting new customers, lower failure costs, and improve the overall reputation of the firm (Anderson, Fornell, and Lehmann 1994). As a result, several studies have found customer satisfaction to be positively associated with firm performance (e.g., Anderson, Fornell, and Mazvancheryl 2004; Fornell et al. 2006; Gruca and Rego 2005; Luo and Bhattacharya 2006).

On the other hand, there is also evidence suggesting that an excessive focus on customer satisfaction can adversely affect the firm's bottom-line performance (e.g., Anderson, Fornell, and Rust 1997; Fornell et al. 2006). For example, in services industries where there are tradeoffs between customer satisfaction and productivity, providing a high level of customization to tailor to individual needs and preferences, firms may drive up costs, leave customers unattended, harm sales per employee, and ultimately, affect the profitability of the firm. Consistent with this logic, Anderson and Mittal (2000) conclude that the impact of customer satisfaction on profitability is nonlinear and more complex than previously studied (cf. Zeithaml 2000). They maintain that efforts aimed at increasing customer satisfaction, such as offering products and services with more and better features as well as providing more attention to customers by employees consume a firm's resources and may be subject to diminishing returns. Gomez, McLaughlin, and Wittink (2004) provide empirical evidence of nonlinearities in the link between customer satisfaction and sales performance. In particular, they find that for positive changes in satisfaction, the satisfaction-performance function is positive at a decreasing rate, while for negative changes the function decreases at a decreasing rate.

Based on this review, research on the link between customer satisfaction and performance has provided inconclusive findings except that a relationship exists. In particular, research suggests that increases in customer satisfaction will lead to superior performance up to a certain point. After this point, the rising costs of improving satisfaction will outweigh the benefits (e.g., Anderson and Mittal 2000). In addition, an excessive focus on satisfaction may detract the firm from other important factors, such as productivity, which are also critical for firm performance. Consistent with this logic, the

relationship between customer satisfaction and performance is likely to include an inflection point where achieving a greater degree of customer satisfaction adversely affects the firm's bottom-line performance. Stated formally:

H5: Satisfaction of the firm's end customers has an inverted U-shaped relationship with the firm's (a) return-on-sales, (b) return-on-assets, and (c) market performance (i.e., there is an inflection point where achieving a greater degree of end customer satisfaction adversely affects the firm's performance).

METHOD

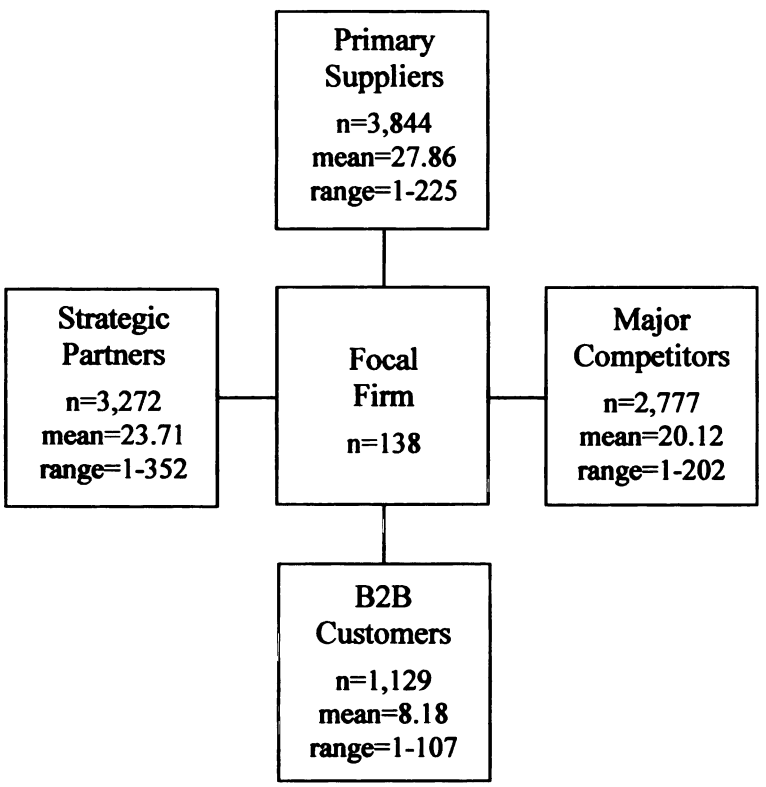
Data Collection

To address the linkages involved in the five hypotheses, four separate but complementary databases were used to create the sample: (1) The American Customer Satisfaction Index (ACSI); (2) Mergent Horizon; (3) Kinder Lydenburg Domini Statistical Tool for Analyzing Trends in Social and Environmental Performance (KLD); and (4) Standard & Poor's Compustat North America database (Compustat). Firms were studied using four years of data taken prior to the drastic economic downturn that started in the spring of 2008. Four years of data were selected to employ a lagged structure for the empirical analysis (i.e., one year for each set of variables) to allow for causal inferences (Palmer and Wiseman 1999). Complete data from the four databases, spanning the years from 2004 to 2007, were obtained for n=138 firms. Directly tied to these 138 firms, stakeholder data were obtained from the entities of these focal firms' supply chains along with data from their major competitors. For each of the focal firms (n=138), an average of 8.18 business-to-business customers (total n=1,129, range: 1-107), 27.86 primary suppliers (total n=3,844, range: 1-225), 23.71 strategic partners (total

n=3,272, range: 1-352), and 20.12 major competitors (total n=2,777, range: 1-202) were obtained (see Figure 7).

FIGURE 7

Sample Size of Focal Firms and their Connections to Entities in the Supply Chain Environment and Marketplace



ACSI was used for customer satisfaction as a part of the relationships depicted in Figure 6. The ACSI database included the fewest firms of the four databases and, consequently, placed the greatest constraints on the resulting sample size that could be obtained across the databases. Out of the 194 firms that are currently assessed annually as a part of the ACSI, a sample size of n=138 firms was obtained that had complete data across the four databases. ACSI served as the database to collect customer satisfaction data for the focal firms in this study (e.g., Anderson, Fornell, and Mazvancheryl 2004;

Luo and Homburg 2007). As a background, the ACSI metric was created in 1994, is reported on a 0 to 100 level, and is regularly used in the marketing literature as a robust indicator of customer satisfaction at the firm level (e.g., Fornell et al. 2006).

Mergent Horizon is a database that provides information on firms and industries along with the capabilities for finding, filtering, and organizing information on a firm's business-to-business customers, primary suppliers, strategic partners, and major competitors. Mergent Horizon was used to identify the focal firm's business-to-business customers, primary suppliers, strategic partners, and major competitors. Data pertaining to the stakeholder focus of these entities were then collected from KLD. In the Mergent Horizon database, comprehensive coverage is available for more than 6,200 firms that are actively traded in the U.S. Mergent Horizon was developed by Mergent, Inc. – a leading provider of business and financial data on publicly listed global firms that was founded in 1900.

KLD is a dataset of firms rated by KLD Research and Analytics, Inc., a social investment firm, which began the ratings in 1991 (initially including 650 firms and now assessing about 3,100 firms). Through their commercially available database of corporate ratings, SOCRATES, KLD Research Analytics, Inc. provides stakeholder-related ratings on over 90 indicators in seven major areas: community, corporate governance, diversity, employee relations, environment, human rights, and products. The indicators include both positive and negative ratings (strengths and concerns). Their ratings are based on five sources: (1) direct communication with firms, (2) global research firms, (3) media, (4) public documents, and (5) government and NGO information. KLD is used widely in

studies on stakeholders (e.g., Berman et al. 1999; Hillman and Keim 2001; Sen and Bhattacharya 2001; Waddock and Graves 1997).

Compustat is a widely used database which includes financial and market information data on some 24,000 active and 10,000 inactive publicly traded firms in the U.S. and Canada. The database provides thousands of income statement, balance sheet, statement of cash flows, and supplemental data variables. Compustat was used to collect data on R&D, goodwill, firm size, firm age, return-on-sales, return-on-assets, and Tobin's Q. Compustat has been used in a large number of marketing studies to measure performance variables. For example, recent marketing studies used Compustat data when researching brands in mergers and acquisitions (Bahadir, Bharadwaj, and Srivastava 2008), customer satisfaction (Luo and Homburg 2008), brand portfolio strategy (Morgan and Rego 2009), and innovation in consumer packaged goods (Sorescu and Spanjol 2008).

Study Measures

For theory testing purposes, a stakeholder focus involves an equally weighted integration of attributes associated with customers, suppliers, employees, regulators, shareholders, and the community. The measures to assess these dimensions were obtained from KLD STATS. A battery of formative measures used in several previous studies (e.g., Berman et al. 1999; Hillman and Keim 2001; Sen and Bhattacharya 2001; Waddock and Graves 1997) was included: 6 items for customers, 20 items for employees, 3 items for suppliers, 9 items for shareholders, 7 items for regulators, and 20 items for community based on theoretically defined properties (see Appendix B). These items centered on issues such as "the company's products have notable social benefits that are

highly unusual or unique for its industry" (customers); "the company has outstanding employee benefits or other programs addressing work/life concerns, e.g., childcare, elder care, or flextime" (employees); "the company does at least 5% of its subcontracting, or otherwise has a demonstrably strong record on purchasing or contracting, with women- and/or minority-owned businesses" (suppliers); "the company owns between 20% and 50% of another company KLD has cited as having an area of social strength, or is more than 20% owned by a firm that KLD has rated as having social strengths" (shareholders); "the company has shown markedly responsible leadership on public policy issues and/or has an exceptional record of transparency and accountability concerning its political involvement in state or federal-level U.S. politics, or in non-U.S. politics" (regulators); and "the company has consistently given over 1.5% of trailing three-year net earnings before taxes to charity, or has otherwise been notably generous in its giving" (community).

The scores for each dimension were adjusted based on the number of items to standardize the effects (cf. Graves and Waddock 1994). For each stakeholder dimension, a total score was calculated by adding KLD items that were labeled as strengths and subtracting those labeled concerns. The average stakeholder scores for the focal firms (n=138) ranged from -.43 to .38 for community ($\bar{x}$ = .01), -1.00 to .50 for suppliers ($\bar{x}$ = -.06), -.35 to .61 for employees ($\bar{x}$ = .07), -.67 to .00 for regulators ($\bar{x}$ = -.11), -.40 to .25 for shareholders ($\bar{x}$ = -.15), and -1.00 to .25 for customers ($\bar{x}$ = -.22). Overall stakeholder scores were obtained for the antecedents (business-to-business customers, primary suppliers, strategic partners, and major competitors) in 2004 and for the focal firms in 2005. For these years, the overall stakeholder averages were $\bar{x}$ = -.06 for the focal firms,

$\bar{x}$ = -.09 for the business-to-business customers, $\bar{x}$ = -.04 for the primary suppliers, $\bar{x}$ = -.07 for the strategic partners, and $\bar{x}$ = -.07 for the major competitors.

The moderator variable of R&D was obtained from the Compustat dataset based on 2004 data. In accordance with its inclusion in Compustat, R&D is defined directly on the Financial Accounting Standards Board (1974) definition: "*Research* is planned search or critical investigation aimed at discovery of new knowledge with the hope that such knowledge will be useful in developing a new product or service or new process or technique or in bringing about a significant improvement to an existing product or process...*development* is the translation of research findings or other knowledge into a plan or design for a new product or process or for a significant improvement to an existing product or process whether intended for sale or use." The average R&D for the focal firms (n=138) was 623.77 million with a range from .00 to 7,779.00 and a standard deviation of 1,684.73 in 2004.

Customer satisfaction scores for the n=138 focal firms were drawn from the ACSI database using 2006 scores (Anderson, Fornell, and Mazvancheryl 2004; Luo and Homburg 2007). This satisfaction metric is based on over 65,000 yearly interviews and has three components: perceived quality, customer expectations, and perceived value among customers (Fornell et al. 1996). With the data based on more than 65,000 customer interviews (approximately 335 customer responses per firm) and being reported on a scale from 0 to 100, the focal firms' (n=138) ACSI scores for 2006 averaged 75.36 with a range from 55 to 87 and a standard deviation of 5.96.

Data to calculate the three performance variables (i.e., return-on-sales, return-on-assets, and Tobin's Q) were obtained from Compustat based on 2007 figures. ROS has

been shown to be a good financial performance variable to benchmark against competitors, because it provides insights into the firms' pricing and cost structure (Day and Wensley 1988). The ROS ratio is calculated as the net income divided by total sales (revenue). A low ROS ratio indicates that low earnings are generated from revenues to pay for fixed expenses and achieve profits. A low ROS is also a potential signal that a firm is unable to control its production and marketing expenses. The focal firms' average ROS in 2007 was .07 with a range from -.74 to .43 and a standard deviation of .10.

ROA is an appropriate performance measure to assess what the firm can do with the assets that it possesses (Short et al. 2007). In essence, ROA projects the amount of profit a firm can achieve with the amount of assets it controls. Intra-industry comparisons are usually effective while inter-industry comparisons are often too different and inconsistent to be valuable. The ROA ratio is calculated as the net income divided by total assets. A high ROA is attributable to a high profit margin, a rapid turnover of assets, or a combination of both. A low ROA ratio, compared with industry averages, indicates an inefficient use of business assets. The focal firms' average ROA in 2007 was .05 with a range of -.46 to .34 and a standard deviation of .08.

Tobin's Q was used to measure a firm's market performance (i.e., overall market effectiveness). The Q ratio was developed by James Tobin, a Nobel laureate in economics, based on the notion that the collective market value of all publicly traded firms should be equal to their replacement costs (e.g., Tobin 1978). In that sense, Tobin's Q is a measure of a firm's "market value" (Short et al. 2007). The formula for Tobin's Q includes "the sum of the market value of equity, the book value of debt, and deferred taxes divided by the book value of total assets minus intangible assets" (Thomas and

Waring 1999, p. 739). A low Q value (between 0 and 1) means that the replacement costs of the firm's assets is greater than its market value (the stock is undervalued). A high Q value (greater than 1) indicates that a firm's market value is more expensive than the cost of replacing its assets (the stock is overvalued). The focal firms' average Q ratio in 2007 was 1.48 with a range from 1.00 to 6.51 and a standard deviation of .76.

The final set of measures used in the model testing included a series of control variables (i.e., the focal firm's goodwill in 2004, size in 2005 and 2006, and age in 2005 and 2006). The goodwill (value of a firm above its net asset value), size (natural log of the focal firms' total number of employees), and age variable (natural log of the focal firms' years in existence) measures were obtained from Compustat. Table 8 reports the average, range, and standard deviation for each of these variables. The focal firm's goodwill values pertain to 2004, while the firm size and age contain the 2005 values. As logically expected, the average age for the focal firms increased by one year in 2006 from that in 2005, as did the range of years, while the standard deviation stayed the same.

TABLE 8

Average, Range, and Standard Deviation of the Control Variables

	Average	Std. Dev.	Range
Goodwill[a] (in thousands)	5,038.46	10,897	.00 - 71,191.00
Firm Size (number of employees in thousands)[b]	96.72	185.16	70 - 1,900
Firm Age (number of years)[b]	41.98	33.95	.00 - 153

[a] 2004 values

[b] 2005 values

Hierarchical Regression and Polynomial Regression

The relationships detailed in Hypotheses 1 through 5 and depicted in Figure 6 were tested via hierarchical regression. H1 through H3 were tested simultaneously in one model, with the control variables (focal firm's stakeholder focus and goodwill) and potential direct effect of the moderator variable (R&D) entered in step 1, followed by the direct effects of the stakeholder focus of the focal firm's business-to-business customers, primary suppliers, strategic partners, and major competitors entered in step 2, and the four moderators involving R&D entered in step 3. The stakeholder scores for the focal firm's business-to-business customers, primary suppliers, strategic partners, and major competitors were averaged.

The relationships involved in H4 and H5 were tested via hierarchical polynomial regression. For H4, the control variables (prior year's satisfaction score for the focal firm and natural log of the firm's age and size) were entered in step 1, with the focal firm's positive and negative stakeholder scores entered in step 2, and the curvilinear variable for each of the positive and negative stakeholder scores entered in step 3. As such, the stakeholder score for the focal firm was disaggregated into the KLD items that are viewed as positive and those that are viewed as negative influences to tease out potential differences in how firms tackle each type. For H5, the control variables (prior year's performance score for the focal firm and natural log of the firm's age and size) were entered in step 1, with the focal firm's satisfaction score entered in step 2, and the curvilinear variable for satisfaction entered in step 3.

RESULTS

The dataset involving a sample size of n=138 focal firms and their, on average, 8.18 business-to-business customers (total n=1,129, range: 1-107), 27.86 primary suppliers (total n=3,844, range: 1-225), 23.71 strategic partners (total n=3,272, range: 1-352), and 20.12 major competitors (total n=2,777, range: 1-202) was used to empirically assess Hypotheses 1 to 5 using a lagged structure involving data from 2004 to 2007. The correlation matrix is not included because of its complexity. It is available upon request.

Antecedents, Moderators, and Stakeholder Focus of the Firm

The examination of Hypotheses 1 to 3 was conducted in one simultaneous hierarchical regression involving the direct effects of the stakeholder focus of the focal firm's business-to-business customers, primary suppliers, strategic partners, and major competitors on the firm's stakeholder focus (H1 to H2) along with the moderating effects of R&D (H3). The antecedents and moderator variables were taken in 2004 and the stakeholder focus of the focal firm was taken in 2005 to allow for causality to be inferred from the analysis. The firm's stakeholder focus in 2004, goodwill in 2004, and R&D in 2004 were included as control variables.

As can be seen in Table 9, a number of significant relationships were detected at an effect size of $\beta>.99$ ($\alpha=.01$). Based on the step 3 results, the control variables of the firm's stakeholder focus in 2004 ($\beta=.49$, $p<.01$) and goodwill in 2004 ($\beta=.-.34$, $p<.01$) were significant, but the firm's R&D investment in 2004 was not. The direct effects of the B2B customers' stakeholder focus in 2004 ($\beta=.66$, $p=.03$) and the competitors' stakeholder focus in 2004 ($\beta=.16$, $p=.08$) significantly affected the focal firm's stakeholder focus in 2005. The effects between the primary suppliers' and strategic

partners' stakeholder focus on one hand and the focal firm's stakeholder focus on the other were insignificant. R&D moderated two of the relationships: the B2B customers' stakeholder focus (β=.81, $p<.01$) and primary suppliers' stakeholder focus (β=.-.35, $p<.01$) on the focal firm's stakeholder focus. The adjusted R^2=.72 for the model (F-value=7.79, $p<.01$). The ΔR^2=.11 (p=.05) between step 2 (direct effects) and step 3 (moderators). These results indicate that Hypotheses 1a, 2, and 3a were supported.

TABLE 9

Hierarchical Regression Results with the Firm's Stakeholder Focus in 2005 as the Criterion Variable

	Standardized Beta (β)	t-Statistic	Significance (p)
Step 1: Controls			
Firm's Stakeholder Focus 2004	.67	5.54	<.01
Firm's Goodwill 2004	-.28	-2.32	.13
Firm's R&D Investment 2004	.19	1.57	.03
R-square=.65			
Adjusted R-square=.61			
F-value=16.38 (p<.01)			
Step 2: Direct Effects			
Firm's Stakeholder Focus 2004	.55	4.06	<.01
Firm's Goodwill 2004	-.31	-2.62	<.05
Firm's R&D Investment 2004	.20	1.64	.12
Customers' Stakeholder Focus 2004	.01	.05	.48
Suppliers' Stakeholder Focus 2004	.00	.01	.49
Partners' Stakeholder Focus 2004	.17	1.08	.14
Competitors' Stakeholder Focus 2004	.24	1.97	<.05
R-square=.72			
Adjusted R-square =.63			
ΔR-square =.07 (p=.30)			
F-value=8.07 (p<.01)			
Step 3: Moderators			
Firm's Stakeholder Focus 2004	.49	3.81	<.01
Firm's Goodwill 2004	-.34	-3.25	<.01
Firm's R&D Investment 2004	-.12	-.65	.52
Customers' Stakeholder Focus 2004	.66	1.94	.03
Suppliers' Stakeholder Focus 2004	-.11	-.81	.21
Partners' Stakeholder Focus 2004	.09	.59	.28
Competitors' Stakeholder Focus 2004	.16	1.43	.08
R&D * Customers SF 2004	.81	1.95	.06
R&D * Suppliers SF 2004	-.35	2.56	.02
R&D * Partners SF 2004	.00	.02	.98
R&D * Competitors SF 2004	-.18	-1.29	.22
R-square=.83			
Adjusted R-square =.72			
ΔR-square =.11 (p=.05)			
F-value=7.79 (p<.01)			
Effect Size: β>.99 (α=.01)			

One-tailed tests were used for directional relationships (business-to-business customers, primary suppliers, strategic partners, and major competitors) and two-tailed tests were used for all other relationships (control variables and the four R&D moderator variables).

Stakeholder Focus of the Firm and Satisfaction

The examination of Hypothesis 4 with the focal firm's customer satisfaction score in 2006 was conducted via a hierarchical polynomial regression. This involved the firm's size (log) in 2005, age (log) in 2005, and customer satisfaction score in 2005 as controls. The stakeholder focus of the firm in 2005 was disaggregated into a "positive" stakeholder focus (i.e., KLD items labeled strengths) and a "negative" stakeholder focus (i.e., KLD items labeled concerns) to examine the complexities involving attending to and disregarding stakeholders. As such, the focal firm's positive and negative stakeholder scores from 2005 were also included as direct controls on the firm's B2C customer satisfaction in 2006 (see Table 10). The hypothesized focus was placed on the curvilinear effects involving the polynomials of the firm's positive stakeholder focus and negative stakeholder focus on satisfaction. Collectively, these variables resulted in an equation with an effect size of $\beta>.99$ ($\alpha=.01$), an adjusted R^2 score of .86, and a significant ΔR^2 between step 2 (controls and direct effects) and step 3 (positive and negative polynomials). The firm's customer satisfaction score in 2005 had a positive effect on satisfaction in 2006 ($\beta=.93$, $p<.01$), as did the direct effect of a firm's negative stakeholder focus in 2005 ($\beta=.11$, $p=.05$). The polynomial involving negatively phrased KLD items (i.e., concerns) had a significant curvilinear effect on the firm's B2C satisfaction in 2006 ($\beta=-.13$, $p=.01$) while the polynomial involving the positively worded KLD items (i.e., strengths) was insignificant. As such, Hypothesis 4 is partially supported.

TABLE 10

Hierarchical Regression Results with Satisfaction of the Firm's B2C Customers in 2006 as the Criterion Variable

	Standardized Beta (β)	t-Statistic	Significance (p)
Step 1: Controls			
Firm's Customer Satisfaction 2005	.92	24.53	<.01
Firm's Size 2005 (Log People)	.09	2.28	.03
Firm's Age 2005 (Log Years)	.01	.24	.82
R-square =.86			
Adjusted R-square =.85			
F-value=209.50 (p<.01)			
Step 2: Direct Effects			
Firm's Customer Satisfaction 2005	.92	24.25	<.01
Firm's Size in 2005 (Log People)	.07	1.50	.14
Firm's Age in 2005 (Log Years)	.01	.18	.86
Positive Stakeholder Focus 2005	.02	.37	.71
Negative Stakeholder Focus 2005	.02	.41	.68
R-square =.86			
Adjusted R-square =.85			
ΔR-square =.00 (p=.84)			
F-value=123.80 (p<.01)			
Step 3: Curvilinear Effects			
Firm's Customer Satisfaction 2005	.93	24.76	<.01
Firm's Size 2005 (Log People)	.07	1.59	.11
Firm's Age 2005 (Log Years)	-.00	-.09	.93
Positive Stakeholder Focus 2005	.07	1.25	.21
Negative Stakeholder Focus 2005	.11	1.97	.05
(Positive Stakeholder Focus 2005)^2	-.07	-1.28	.20
(Negative Stakeholder Focus 2005)^2	-.13	-2.71	.01
R-square =.87			
Adjusted R-square =.86			
ΔR-square =.01 (p=.02)			
F-value =95.41 (p<.01)			
Effect Size: β>.99 (α=.01)			

Satisfaction and Performance

The examination of Hypothesis 5 was conducted in three separate hierarchical polynomial regressions. The equations involved direct effects of four control variables on return-on-sales in 2007, return-on-assets in 2007, and Tobin's Q in 2007: the focal firm's performance (return-on-sales, return-on-assets, and Tobin's Q respectively) in 2006, size (log) in 2006, age (log) in 2006, and customer satisfaction score in 2006. The hypothesized focus was placed on the curvilinear effects of the firm's customer satisfaction in 2006 on return-on-sales in 2007, return-on-assets in 2007, and Tobin's Q in 2007. Involving these variables resulted in all three equations with effect sizes of $\beta>.99$ ($\alpha=.01$), adjusted R^2 scores ranging from .33 to .90, and significant ΔR^2 for all three models between step 2 (controls) and step 3 (customer satisfaction squared). As can be seen in Tables 11, 12, and 13, the three models also resulted in parallel results in that each of the performance control variables in 2006 (i.e., return-on-sales, return-on-assets, and Tobin's Q), respectively, affected their corresponding performance variable in 2007 (the β ranged from .48 to .96, $p<.01$). The polynomials (satisfaction squared) in each of the performance equations were significant and negative (i.e., inverted-U shape): $\beta=-.22$ ($p=.01$) in the return-on-sales model, $\beta=-.18$ ($p=.02$) in the return-on-assets model, and $\beta=-.06$ ($p=.08$ in the Tobin's Q model. These results support Hypotheses 5a, 5b, and 5c.

TABLE 11

Hierarchical Regression Results with Return-on-Sales in 2007 as the Criterion Variable

	Standardized Beta (β)	t-Statistic	Significance (p)
Step 1: Controls			
Firm's Return-on-Sales 2006	.58	7.37	<.01
Firm's Size 2006 (Log People)	-.12	-1.53	.13
Firm's Age 2006 (Log Years)	-.02	-.25	.80
R-square =.34			
Adjusted R-square =.32			
F-value=18.74 (p<.01)			
Step 2: Direct Effect			
Firm's Return-on-Sales 2006	.54	6.73	<.01
Firm's Size 2006 (Log People)	-.12	-1.53	.13
Firm's Age 2006 (Log Years)	-.05	-.63	.53
Firm's Customer Satisfaction 2006	.14	1.64	.10
R-square =.36			
Adjusted R-square =.34			
ΔR-square =.02 (p=.10)			
F-value=14.94 (p<.01)			
Step 3: Curvilinear Effect			
Firm's Return-on-Sales 2006	.48	5.85	<.01
Firm's Size 2006 (Log People)	-.12	-1.61	.11
Firm's Age 2006 (Log Years)	-.06	-.72	.47
Firm's Customer Satisfaction 2006	.13	1.57	.12
(Firm's Customer Satisfaction 2006)^2	-.22	-2.75	.01
R-square =.40			
Adjusted R-square =.38			
ΔR-square =.04 (p<.01)			
F-value=14.20 (p<.01)			
Effect Size: β>.99 (α=.01)			

TABLE 12

Hierarchical Regression Results with Return-on-Assets in 2007 as the Criterion Variable

	Standardized Beta (β)	t-Statistic	Significance (p)
Step 1: Controls			
Firm's Return-on-Assets 2006	.58	7.13	<.01
Firm's Size 2006 (Log People)	-.12	-1.45	.15
Firm's Age 2006 (Log Years)	-.05	-.57	.57
R-square =.32			
Adjusted R-square =.30			
F-value=17.05 (p<.01)			
Step 2: Direct Effect			
Firm's Return-on-Assets 2006	.55	6.34	<.01
Firm's Size 2006 (Log People)	-.11	-1.37	.17
Firm's Age 2006 (Log Years)	-.07	-.80	.43
Firm's Customer Satisfaction 2006	.09	1.07	.29
R-square =.33			
Adjusted R-square =.30			
ΔR-square =.01 (p=.29)			
F-value=13.09 (p<.01)			
Step 3: Curvilinear Effect			
Firm's Return-on-Assets 2006	.54	6.39	<.01
Firm's Size 2006 (Log People)	-.12	-1.46	.15
Firm's Age 2006 (Log Years)	-.07	-.80	.43
Firm's Customer Satisfaction 2006	.07	.84	.41
(Firm's Customer Satisfaction 2006)^2	-.18	-2.34	.02
R-square =.36			
Adjusted R-square =.33			
ΔR-square =.03 (p=.02)			
F-value=12.00 (p<.01)			
Effect Size: β>.99 (α=.01)			

TABLE 13

Hierarchical Regression Results with Tobin's Q in 2007 as the Criterion Variable

	Standardized Beta (β)	t-Statistic	Significance (p)
Step 1: Controls			
Firm's Tobin's Q 2006	.95	27.27	<.01
Firm's Size 2006 (Log People)	.01	.26	.80
Firm's Age 2006 (Log Years)	.04	1.00	.32
R-square =.89			
Adjusted R-square =.89			
F-value=247.87 (p<.01)			
Step 2: Direct Effect			
Firm's Tobin's Q 2006	.94	27.14	<.01
Firm's Size 2006 (Log People)	.01	.22	.83
Firm's Age 2006 (Log Years)	.03	.74	.46
Firm's Customer Satisfaction 2006	.04	1.08	.28
R-square =.89			
Adjusted R-square =.89			
ΔR-square =.00 (p=.28)			
F-value=186.53 (p<.01)			
Step 3: Curvilinear Effect			
Firm's Tobin's Q 2006	.96	27.35	<.01
Firm's Size 2006 (Log People)	.01	.26	.80
Firm's Age 2006 (Log Years)	.03	.87	.39
Firm's Customer Satisfaction 2006	.04	1.19	.24
(Firm's Customer Satisfaction 2006)^2	-.06	-1.77	.08
R-square =.90			
Adjusted R-square =.90			
ΔR-square =.01 (p=.08)			
F-value=153.50 (p<.01)			
Effect Size: β>.99 (α=.01)			

DISCUSSION AND IMPLICATIONS

This research studied the influence of the stakeholder focus of various entities within a focal firm's supply chains and marketplace on the stakeholder focus of the focal firm. In addition, it investigated the impact of a firm's stakeholder focus on customer satisfaction and reexamined the customer satisfaction–performance relationship. The conceptual model was tested with secondary data obtained from four different databases. The results indicate that the stakeholder focus of the focal firm's business-to-business customers, primary suppliers, and major competitors has a direct or moderated effect on the focal firm's stakeholder focus. The analysis also reveals that while a negative stakeholder focus has an inverted U-shaped relationship with the satisfaction of the firm's end customers, a positive stakeholder focus has no effect on customer satisfaction. In turn, the relationship between customer satisfaction and firm performance is in the form of an inverted-U, as there is an inflection point where achieving a greater degree of customer satisfaction, adversely affects the firm's performance.

By extension, the empirical findings of U-shaped relationships indicate that firms possibly have multi-curve relationships (e.g., S-shaped) involving their stakeholder focus and customer satisfaction, and customer satisfaction and performance, respectively, if they stay in business. That is, firms that stay in business are likely to experience their downward trend (negative portion of the inverted U-shaped curve) to flatten and/or turn upwards. On the other hand, if the curve continues a downward pattern, the firm is likely to go bankrupt at some point. Thus, the inverted U-shaped relationships are both indicative of "more is not always better" and of a deeper level of complexity involving a firm's stakeholder focus, customer satisfaction, and performance than previous linear

relationships. These findings involving satisfaction, along with those of the institutional theory-based relationships addressing a firm's stakeholder focus and R&D, have important implications for both research and managerial practice.

From an institutional theory perspective, this study sheds new light on the firm's imitation of stakeholder practices of different types of organizations within its supply chain environment and marketplace. Moreover, it explores the role of R&D. It was demonstrated that imitation between firms in the supply chain can occur moving upstream (cf. McFarland, Bloodgood, and Payan 2008), as the business-to-business customers' stakeholder focus affects the focal firm's stakeholder focus. The business-to-business customers represent an important source of revenues for the firm and as such, the focal firm is dependent on them. This, in turn, leads the firm to copy the behaviors exhibited by its business-to-business customers. In addition, the results indicate that the more the firm invests in R&D, the more its stakeholder focus will resemble that of its B2B customers. One possible explanation is that the firm invests in R&D in part to provide innovative solutions to its B2B customers. These investments create greater dependence on the B2B customers, which increases the level of imitation (e.g., DiMaggio and Powell 1983). In contrast, the analysis reveals that the opposite occurs when it comes to the focal firm's primary suppliers. In particular, the more a firm invests in R&D, the less it will be influenced by the stakeholder focus of its suppliers. One reason for this is that as the focal firm invests in R&D, it becomes less dependent on its suppliers to obtain strategic resources such as information. This, in turn, lowers the level of imitation, and hence, the focal firm's stakeholder focus is less affected by its suppliers' stakeholder focus.

Moreover, the results indicate that the major competitors' stakeholder focus is positively related to the stakeholder focus of the focal firm. This suggests that firms not only pay close attention to the stakeholder practices of their competitors (e.g., Narver and Slater 1990), but consistent with the tenets of institutional theory (e.g., DiMaggio and Powell 1983) and the literature on competitive strategy (e.g., Dickson 1992), they also respond by mimicking their competitors' actions. In this context, future research could examine whether firms respond in the same manner to the positive and negative actions of other entities. It is possible that firms are more likely to imitate positive actions and less likely to imitate the negative actions of other organizations in their environment.

In addition, by developing the *stakeholder focus* concept, this study makes a significant step toward broadening the scope of marketing to emphasize additional stakeholders beyond customers (e.g., Maignan and Ferrell 2004). At the same time, this study contributes to stakeholder theory (e.g., Jones 1995) by incorporating customer satisfaction as an intermediate marketing outcome that links stakeholder management and performance. In this context, the findings suggest that the relationship between a firm's stakeholder focus and customer satisfaction is more complex than was originally predicted. Specifically, while the results provide support for an inverted U-shaped relationship between a negative stakeholder focus and customer satisfaction, no such effect emerged for a positive stakeholder focus.

This suggests that stakeholder management is a zero sum game. Stakeholders have competing interests, and as such, there are tradeoffs among the various stakeholders. For example, while customers want lower prices, employees want salary increases, communities want charitable contributions, and shareholders want an increase in their

wealth. Due to the conflicting nature of these demands and the firm's finite resources, it is highly unlikely that a firm is able to satisfy them all. Hence, it seems like one stakeholder group gains at the expense of the others. This would explain why investing significant resources, attention, and time to address the claims of the six primary stakeholder groups (i.e., customers, employees, suppliers, shareholders, regulators, and the community) by engaging in positive stakeholder practices does not lead to an improvement in the level of customer satisfaction. A stakeholder-focused firm that seeks to address the claims of the six primary stakeholders has to balance their competing claims. As a result, it will effectively meet *some* of the demands of the six stakeholders, but will also leave other demands unmet. From the customers' viewpoint, since the firm has met some of their needs and wants, but has failed to deliver on several aspects, they are neither satisfied nor dissatisfied with the firm.

The opposite seems to occur when it comes to a negative stakeholder focus, since disregarding some stakeholder demands increases the satisfaction of the end customers up to a point. One explanation for this is that firms give priority to the interests of the customers and fail to attend to the claims of other stakeholder groups to be able to allocate more resources to achieving customer satisfaction. Since the firm is meeting the customers' needs and wants, the result is an increase in customer satisfaction. In this case, the customers win, at the expense of the other stakeholders. However, after a certain point, engaging in more negative stakeholder practices harms customer satisfaction. At these higher levels of a negative stakeholder focus, the firm is ignoring the interests of its stakeholders, including those of its customers. Therefore, these findings are consistent with the tenets of the instrumental approach to stakeholder theory (e.g., Donaldson and

Preston 1995) in that managing stakeholder relationships is essential for the firm, because not doing so can be detrimental for the achievement of corporate objectives (e.g., customer satisfaction). However, contrary to the predictions of such theory, attending to the interests of the six primary stakeholders does not necessarily result in a competitive advantage (cf. Jones 1995).

While possible explanations for the findings on the stakeholder focus–customer satisfaction link have been advanced, research exploring the causes of these findings is needed. Future studies can disaggregate the stakeholder focus construct into the six dimensions (i.e., customers, employees, suppliers, shareholders, regulators, and the community) to examine whether addressing the interests of select stakeholder groups matters more for the satisfaction of the end customers than other groups. It is possible that a firm that attends more to its customers, employees, and suppliers has a different level of customer satisfaction than one that attends to its customers, regulators, and shareholders. Also, by disaggregating the stakeholder focus into its different dimensions, future research can examine if paying attention to a particular stakeholder group results in a decrease in customer satisfaction. Furthermore, these effects may vary by economic sector. In addition, by conducting research at the customer level, future studies can determine if customers are aware of the different positive and negative stakeholder practices of firms and whether this has an impact on their level of satisfaction with the firms or with their brands.

Another contribution this study makes is that it is among the first to empirically demonstrate an inverted U-shaped relationship between customer satisfaction and performance. This suggests that customer satisfaction leads to superior performance up to

an optimal point, after which attaining a greater degree of customer satisfaction negatively affects performance. While this finding provides support for Anderson and Mittal's (2000) arguments for the nonlinear nature of this link – i.e., customer satisfaction does not always lead to superior performance given that efforts directed at increasing the level of satisfaction consume firm resources – it contradicts the direct positive linear relationship that has been obtained in previous research (e.g., Anderson, Fornell, and Mazvancheryl 2004; Gruca and Rego 2005; Luo and Bhattacharya 2006).

APPENDIX B

Formative Measures of the Stakeholder Dimensions (from the KLD STATS Ratings)

Label in the KLD Database	Stakeholder Dimension and Item Description	Identified as a Strength / Concern in the KLD Database
	Customers	
PRO-str-A	**Quality**. The company has a long-term, well-developed, company-wide quality program, or it has a quality program recognized as exceptional in U.S. industry.	Strength
PRO-str-B	**R&D/Innovation**. The company is a leader in its industry for research and development (R&D), particularly by bringing notably innovative products to market.	Strength
PRO-str-C	**Benefits to Economically Disadvantaged**. The company has as part of its basic mission the provision of products or services for the economically disadvantaged.	Strength
PRO-str-X	**Other Product Strength**. The company's products have notable social benefits that are highly unusual or unique for its industry.	Strength
PRO-con-A	**Product Safety**. The company has recently paid substantial fines or civil penalties, or is involved in major recent controversies or regulatory actions, relating to the safety of its products and services.	Concern
PRO-con-D	**Marketing/Contracting Concern**. The company has recently been involved in major marketing or contracting controversies, or has paid substantial fines or civil penalties relating to advertising practices, consumer fraud, or government contracting.	Concern
	Employees	
DIV-str-A	**CEO**. The company's chief executive officer is a woman or a member of a minority group.	Strength
DIV-str-B	**Promotion**. The company has made notable progress in the promotion of women and minorities, particularly to line positions with profit-and-loss responsibilities in the corporation.	Strength
DIV-str-C	**Board of Directors**. Women, minorities, and/or the disabled hold four seats or more (with no double counting) on the board of directors, or one-third or more of the board seats if the board numbers less than 12.	Strength
DIV-str-D	**Work/Life Benefits**. The company has outstanding employee benefits or other programs addressing work/life concerns, e.g., childcare, elder care, or flextime.	Strength

Label in the KLD Database	Item Description	Identified as a Strength / Concern in the KLD Database
	Employees Continued	
DIV-str-F	**Employment of the Disabled.** The company has implemented innovative hiring programs; other innovative human resource programs for the disabled, or otherwise has a superior reputation as an employer of the disabled.	Strength
DIV-str-G	**Gay & Lesbian Policies.** The company has implemented notably progressive policies toward its gay and lesbian employees. In particular, it provides benefits to the domestic partners of its employees.	Strength
DIV-str-X	**Other Diversity Strength.** The company has made a notable commitment to diversity that is not covered by other KLD ratings.	Strength
DIV-con-B	**Non-Representation.** The company has no women on its board of directors or among its senior line managers.	Concern
DIV-con-X	**Other Diversity Concern.** The company is involved in diversity controversies not covered by other KLD ratings.	Concern
EMP-str-A	**Union Relations.** The company has taken exceptional steps to treat its unionized workforce fairly. KLD renamed this strength from Strong Union Relations.	Strength
EMP-str-C	**Cash Profit Sharing.** The company has a cash profit-sharing program through which it has recently made distributions to a majority of its workforce.	Strength
EMP-str-D	**Employee Involvement.** The company strongly encourages worker involvement and/or ownership through stock options available to a majority of its employees; gain sharing, stock ownership, sharing of financial information, or participation in management decision-making.	Strength
EMP-str-F	**Retirement Benefits Strength.** The company has a notably strong retirement benefits program. KLD renamed this strength from Strong Retirement Benefits.	Strength
EMP-str-G	**Health and Safety Strength.** The company has strong health and safety programs.	Strength
EMP-str-X	**Other Employee Relations Strength.** The company has strong employee relations initiatives not covered by other KLD ratings.	Strength

Label in the KLD Database	Item Description	Identified as a Strength / Concern in the KLD Database
	Employees Continued	
EMP-con-A	**Union Relations.** The company has a history of notably poor union relations. KLD renamed this concern from Poor Union Relations.	Concern
EMP-con-B	**Health and Safety Concern.** The company recently has either paid substantial fines or civil penalties for willful violations of employee health and safety standards, or has been otherwise involved in major health and safety controversies.	Concern
EMP-con-C	**Workforce Reductions.** The company has made significant reductions in its workforce in recent years.	Concern
EMP-con-D	**Retirement Benefits Concern.** The company has either a substantially under-funded defined benefit pension plan, or an inadequate retirement benefits program.	Concern
EMP-con-X	**Other Employee Relations Concern.** The company is involved in an employee relations controversy that is not covered by other KLD ratings.	Concern
	Suppliers	
DIV-str-E	**Women & Minority Contracting.** The company does at least 5% of its subcontracting, or otherwise has a demonstrably strong record on purchasing or contracting, with women-and/or minority-owned businesses.	Strength
HUM-str-G	**Labor Rights Strength.** The company has outstanding transparency on overseas sourcing disclosure and monitoring, or has particularly good union relations outside the U.S., or has undertaken labor rights-related initiatives that KLD considers outstanding or innovative.	Strength
HUM-con-F	**Labor Rights Concern.** The company's operations have had major recent controversies primarily related to labor standards in its supply chain.	Concern

Label in the KLD Database	Item Description	Identified as a Strength / Concern in the KLD Database
	Shareholders	
CGOV-str-A	**Limited Compensation.** The company has recently awarded notably low levels of compensation to its top management or its board members. The limit for a rating is total compensation of less than $500,000 per year for a CEO or $30,000 per year for outside directors.	Strength
CGOV-str-C	**Ownership Strength.** The company owns between 20% and 50% of another company KLD has cited as having an area of social strength, or is more than 20% owned by a firm that KLD has rated as having social strengths. When a company owns more than 50% of another firm, it has a controlling interest, and KLD treats the second firm as if it is a division of the first.	Strength
CGOV-str-D	**Transparency Strength.** The company is particularly effective in reporting on a wide range of social and environmental performance measures, or is exceptional in reporting on one particular measure.	Strength
CGOV-str-X	**Other Corporate Governance Strength.** The company has a unique and positive corporate culture, or has undertaken a noteworthy initiative not covered by KLD's other corporate governance ratings.	Strength
CGOV-con-B	**High Compensation.** The company has recently awarded notably high levels of compensation to its top management or its board members. The limit for a rating is total compensation of more than $10 million per year for a CEO or $100,000 per year for outside directors.	Concern
CGOV-con-F	**Ownership Concern.** The company owns between 20% and 50% of a company KLD has cited as having an area of social concern, or is more than 20% owned by a firm KLD has rated as having areas of concern. When a company owns more than 50% of another firm, it has a controlling interest, and KLD treats the second firm as if it is a division of the first.	Concern
CGOV-con-G	**Accounting Concern.** The company is involved in significant accounting-related controversies.	Concern
CGOV-con-H	**Transparency Concern.** The company is distinctly weak in reporting on a wide range of social and environmental performance measures.	Concern
CGOV-con-X	**Other Corporate Governance Concern.** The company is involved with a controversy not covered by KLD's other corporate governance ratings.	Concern

Label in the KLD Database	Item Description	Identified as a Strength / Concern in the KLD Database
	Regulators	
CGOV-str-E	**Political Accountability Strength.** The company has shown markedly responsible leadership on public policy issues and/or has an exceptional record of transparency and accountability concerning its political involvement in state or federal-level U.S. politics, or in non-U.S. politics.	Strength
COM-con-D	**Tax Disputes.** The company has recently been involved in major tax disputes involving Federal, state, local or non-U.S. government authorities, or is involved in controversies over its tax obligations to the community.	Concern
CGOV-con-I	**Political Accountability.** The company has been involved in noteworthy controversies on public policy issues and/or has a very poor record of transparency and accountability concerning its political involvement in state or federal-level U.S. politics, or in non-U.S. politics.	Concern
DIV-con-A	**Controversies.** The company has either paid substantial fines or civil penalties as a result of affirmative action controversies, or has otherwise been involved in major controversies related to affirmative action issues.	Concern
ENV-con-A	**Hazardous Waste.** The company's liabilities for hazardous waste sites exceed $50 million, or the company has recently paid substantial fines or civil penalties for waste management violations.	Concern
ENV-con-B	**Regulatory Problems.** The company has recently paid substantial fines or civil penalties for violations of air, water, or other environmental regulations, or it has a pattern of regulatory controversies under the Clean Air Act, Clean Water Act or other major environmental regulations.	Concern
PRO-con-E	**Antitrust.** The company has recently paid substantial fines or civil penalties for antitrust violations such as price fixing, collusion, or predatory pricing, or is involved in recent major controversies or regulatory actions relating to antitrust allegations.	Concern

Label in the KLD Database	Item Description	Identified as a Strength / Concern in the KLD Database
	Community	
COM-str-A	**Charitable Giving.** The company has consistently given over 1.5% of trailing three-year net earnings before taxes (NEBT) to charity, or has otherwise been notably generous in its giving.	Strength
COM-str-B	**Innovative Giving.** The company has a notably innovative giving program that supports nonprofit organizations, particularly those promoting self-sufficiency among the economically disadvantaged. Companies that permit nontraditional federated charitable giving drives in the workplace are often noted in this section as well.	Strength
COM-str-C	**Support for Housing.** The company is a prominent participant in public/private partnerships that support housing initiatives for the economically disadvantaged, e.g., the National Equity Fund or the Enterprise Foundation.	Strength
COM-str-D	**Support for Education.** The company has either been notably innovative in its support for primary or secondary school education, particularly for those programs that benefit the economically disadvantaged, or the company has prominently supported job-training programs for youth.	Strength
COM-str-F	**Non-US Charitable Giving.** The company has made a substantial effort to make charitable contributions abroad, as well as in the U.S. To qualify, a company must make at least 20% of its giving, or have taken notably innovative initiatives in its giving program, outside the U.S.	Strength
COM-str-G	**Volunteer Programs.** The company has an exceptionally strong volunteer program.	Strength
COM-str-X	**Other Community Strength.** The company either has an exceptionally strong in-kind giving program or engages in other notably positive community activities.	Strength
COM-con-A	**Investment Controversies.** The company is a financial institution whose lending or investment practices have led to controversies, particularly ones related to the Community Reinvestment Act.	Concern
COM-con-B	**Negative Economic Impact.** The company's actions have resulted in major controversies concerning its economic impact on the community. These controversies can include issues related to environmental contamination, water rights disputes, plant closings, "put-or-pay" contracts with trash incinerators, or other company actions that adversely affect the quality of life, tax base, or property values in the community.	Concern

Label in the KLD Database	Item Description	Identified as a Strength / Concern in the KLD Database
	Community Continued	
COM-con-X	**Other Community Concern.** The company is involved with a controversy that has mobilized community opposition, or is engaged in other noteworthy community controversies.	Concern
ENV-str-A	**Beneficial Products and Services.** The company derives substantial revenues from innovative remediation products, environmental services, or products that promote the efficient use of energy, or it has developed innovative products with environmental benefits. (The term "environmental service" does not include services with questionable environmental effects, such as landfills, incinerators, waste-to-energy plants, and deep injection wells.)	Strength
ENV-str-B	**Pollution Prevention.** The company has notably strong pollution prevention programs including both emissions reductions and toxic-use reduction programs.	Strength
ENV-str-C	**Recycling.** The company either is a substantial user of recycled materials as raw materials in its manufacturing processes, or a major factor in the recycling industry.	Strength
ENV-str-D	**Clean Energy.** The company has taken significant measures to reduce its impact on climate change and air pollution through use of renewable energy and clean fuels or through energy efficiency. The company has demonstrated a commitment to promoting climate-friendly policies and practices outside its own operations.	Strength
ENV-str-X	**Other Environment Strength.** The company has demonstrated a superior commitment to management systems, voluntary programs, or other environmentally proactive activities.	Strength
ENV-con-C	**Ozone Depleting Chemicals.** The company is among the top manufacturers of ozone depleting chemicals such as HCFCs, methyl chloroform, methylene chloride, or bromines.	Concern
ENV-con-D	**Substantial Emissions.** The company's legal emissions of toxic chemicals (as defined by and reported to the EPA) from individual plants into the air and water are among the highest of the companies followed by KLD.	Concern
ENV-con-E	**Agricultural Chemicals.** The company is a substantial producer of agricultural chemicals, i.e., pesticides or chemical fertilizers.	Concern

Label in the KLD Database	Item Description	Identified as a Strength / Concern in the KLD Database
	Community Continued	
HUM-str-D	**Indigenous Peoples Relations Strength.** The company has established relations with indigenous peoples near its proposed or current operations (either in or outside the U.S.) that respect the sovereignty, land, culture, human rights, and intellectual property of indigenous peoples.	Strength
HUM-con-G	**Indigenous Peoples Relations Concern.** The company has been involved in serious controversies with indigenous peoples (either in or outside the U.S.) that indicate the company has not respected the sovereignty, land, culture, human rights, and intellectual property of indigenous peoples.	Concern

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Essay 3

STAKEHOLDER-FOCUSED ORGANIZATIONAL LEARNING, RESPONSIVENESS, AND INNOVATION / IMITATION

In the global marketplace, organizations increasingly "compete on the basis of the superiority of their information and know-how" (Kogut and Zander 1993, p. 640). The need to be well-equipped with information led U.S. organizations to spend an estimated $73 billion on knowledge management software in 2007 (McGreevy 2007). If applied effectively, high quality and easy-to-access information can bring benefits to organizations. For example, IBM employs a knowledge management system that is used by employees to capture, share, and reuse intellectual capital (e.g., information, know-how, experiences, ideas, and models). This tool has helped IBM deliver superior value to its customers and shareholders (Huang 1998). Similarly, British Petroleum (BP) actively supports knowledge management by using various tools such as a voluntary corporate intranet that helps employees find expert help when needed and an "after-action review" that facilitates learning by asking a few questions that center on whether there were any differences between what was supposed to happen and the actual outcome of an action as well as the reasons for those differences (Stewart 1999). These methods resulted in savings for BP that amounted to $260 million in just one year (Stewart 1999).

The importance of knowledge as a strategic weapon for organizations to excel in the competitive global marketplace has prompted a number of marketing scholars to examine how organizations learn about the market (e.g., Hurley and Hult 1998; Sinkula 1994; Slater and Narver 1995). Through organizational learning, organizations develop new knowledge that facilitates behavior change (e.g., Slater and Narver 1995). The

emphasis in this study is on stakeholder-focused organizational learning. This type of learning centers on gaining new stakeholder-related knowledge which has the potential to influence an organization's behaviors toward its stakeholders (cf. Slater and Narver 1995). Based on the extant literature on organizational learning (e.g., Huber 1991; Sinkula 1994), four learning processes associated with stakeholder-focused organizational learning are considered in this research to affect stakeholder-focused responsiveness (i.e., knowledge acquisition, information distribution, information interpretation, and organizational memory). Responsiveness is defined as the organization's propensity to take action in response to the stakeholder-related knowledge that is acquired, distributed, interpreted, and stored (cf. Kohli and Jaworski 1990).

At the same time, organizations learn in an environment that consists largely of other organizations that are also learning (Levitt and March 1988). Realistic models of organizational learning must account for the alternative mechanisms that organizations use to acquire information about the market (e.g., Lieberman and Asaba 2006). As such, organizations can vary in their reliance on obtaining information from their own experience (experiential learning), from the observed behavior of other organizations with whom they have no direct links (vicarious learning), or from direct communication with their peers (contact learning) (e.g., Lieberman and Asaba 2006; Ordanini, Rubera, and DeFillippi 2008). Such differences in the way organizations acquire information can lead them to respond differently to stakeholders, varying in the degree of innovative and imitative stakeholder practices.

Accordingly, the research questions in this study are: (1) does stakeholder-focused organizational learning influence stakeholder-focused responsiveness?; (2) is the

organization's degree of innovative and imitative stakeholder practices affected by the mechanism(s) it relies on to acquire stakeholder-related knowledge?; and (3) are there interaction effects between these knowledge acquisition mechanisms? While addressing these questions, the study makes the following contributions. First, it expands the almost exclusive focus on customers of market-based organizational learning (e.g., Sinkula, Baker, and Noordewier 1997) to include organizational learning about additional primary stakeholders (i.e., suppliers, employees, shareholders, community, and regulators) who are also essential for the continued success of the organization (e.g., Clarkson 1995). Second, the study integrates institutional theory, social network theory, and the literature on organizational learning to examine alternative modes of knowledge acquisition and the impact of these varying modes on an organization's propensity to innovate and imitate.

ORGANIZATIONAL LEARNING

Organizational learning is "the development of new knowledge or insights that have the potential to influence behavior" (Slater and Narver 1995, p. 63). It can be of two types – lower-level or higher-level learning (e.g., Fiol and Lyles 1985). Lower-level learning (also known as single-loop or adaptive learning) is the most common and basic type of learning (e.g., Baker and Sinkula 1999; Slater and Narver 1995). It takes place within a given set of rules that reflect the organization's long-standing assumptions about its external environment and its strategy (e.g., Fiol and Lyles 1985; Slater and Narver 1995). This form of learning focuses on the immediate impact on a specific organizational activity. As such, it results in learning that is sequential and incremental. In contrast to lower-level learning, higher-order learning (also known as double-loop or

generative learning) is not centered on a particular activity, but rather on changing overall rules (e.g., Fiol and Lyles 1985). Specifically, it leads to the development of new cognitive frameworks, which have a lasting effect on the organization. This, in turn, can create a competitive advantage for the organization (e.g., Baker and Sinkula 1999; Slater and Narver 1995).

Previous research has identified four processes that are associated with organizational learning (e.g., Huber 1991; Sinkula 1994). These are: knowledge acquisition, information distribution, information interpretation, and organizational memory. The remaining portion of this section discusses these four learning processes.

Knowledge Acquisition

Knowledge acquisition is the process by which organizations obtain knowledge (Huber 1991). It involves collecting information about the external environment and then bringing that information into the boundaries of the organization (Moorman 1995). Particularly, organizations acquire information about customer needs, market segmentation, competitor practices, and the changing role of channel partners (Day 1994). This process is essential, because without it, the organization would not be able to keep up with changes in its market environment (Sinkula, Baker, and Noordewier 1997). As such, it is undertaken collectively by different individuals and departments throughout the organization, and not just by the marketing department (e.g., Kohli and Jaworski 1990).

Different mechanisms exist through which organizations acquire information. First, organizations can acquire information independently, from their own experience (*experiential learning* – e.g., Day 1994; Huber 1991; Levitt and March 1988). As pointed

out by Slater and Narver (1995), this experience can be internally-focused (i.e., exploitation) or externally-focused (i.e., exploration – March 1991). Information acquired from internally-focused experience consists of relying on information that is currently available to the organization in order to achieve its objectives. This is evident from the experience-based learning curve, where for example, a manufacturing organization gains experience producing a new product, and then uses the knowledge obtained from that experience to improve productivity (e.g., Huber 1991; Levinthal and March 1993). On the other hand, information acquired from externally-focused experience consists of gaining new information through searching (March 1991). This entails investing significant resources and time in scanning the organization's external environment for information about changes and in formally and periodically evaluating how well the organization is meeting its own standards, as well as the expectations of its stakeholders (Huber 1991). Some examples include the routine analysis of customer databases and formal market research, such as focus groups, customer attitude surveys, and assessment of sales response in test markets (e.g., Kohli and Jaworski 1990).

Organizations can also acquire second-hand experience (Huber 1991) by drawing inferences from the observed behavior of other organizations with whom they have no direct links (*vicarious learning*) or from direct communication with others (*contact learning* – e.g., Lieberman and Asaba 2006; Ordanini, Rubera, and DeFillippi 2008). Previous research has identified three different modes of vicarious learning – frequency-based, trait-based, and outcome-based learning (e.g., Haunschild and Miner 1997; Srinivasan, Haunschild, and Grewal 2007). Frequency-based learning consists of learning from those practices that have been executed by large numbers of other organizations in

the field. Trait-based learning involves learning from the practices that have been adopted by organizations with particular traits, like large size and success. Lastly, with outcome-based learning, organizations learn from the outcomes experienced by other organizations after adopting certain practices. As such, organizations learn what actions tend to produce positive outcomes, as well as those that tend to produce negative outcomes and so should be avoided. To acquire information about the practices implemented by others, organizations rely on benchmarking, the press, conferences, statistics, and books (Ordanini, Rubera, and DeFillippi 2008).

Social network theory points to the importance of social relationships as an instrument for knowledge acquisition (e.g., Tichy, Tushman, and Fombrun 1979). Consistent with this perspective, contact learning refers to learning from the experiences of others "by the means of personal and formal relationships between organizations and their members" (Ordanini, Rubera, and DeFillippi 2008, p. 385). These ties enable organizations to readily observe and communicate with peers in other organizations, which in turn, facilitates learning about new practices in the field (e.g., Kraatz 1998). Examples of knowledge acquisition from contact learning include discussions with suppliers and working with lead business-to-business customers (e.g., Kohli and Jaworski 1990; Slater and Narver 1995). In sum, both vicarious and contact learning involve learning from other organizations. The main difference lies in the source of information used. While vicarious learning uses impersonal sources such as newspapers and reports, contact learning relies on personal sources, whereby individuals have direct contact with each other (cf. Daft and Weick 1984).

Information Distribution

For an organization to understand and effectively respond to market needs, newly acquired market information must be communicated to relevant departments and individuals throughout the organization (e.g., Kohli and Jaworski 1990; Sinkula, Baker, and Noordewier 1997). Information distribution is the process by which organizations share information from different sources (Huber 1991). Depending on who acquires such information, it can flow from the marketing department to other departments, as well as in the opposite direction (Kohli and Jaworski 1990). As organizations eliminate the functional barriers that obstruct the flow of information between departments, they enhance their ability to make and implement prompt decisions (Slater and Narver 1995). Further, effective information distribution serves to coordinate the actions of different departments, which in turn, facilitates the achievement of organizational objectives (Kohli and Jaworski 1990).

In a study about market information distribution across functional barriers, Maltz and Kohli (1996) identify two aspects of this process – distribution formality (i.e., number of formal information distribution events relative to the total number of distribution events during a particular time period) and frequency (i.e., number of distribution events between a sender and a recipient during a particular time period). Formal information distribution is structured and includes meetings, written memos, and cross-functional teams, whereas informal distribution takes place during interpersonal interactions, such as hall talks (Moorman 1995). Maltz and Kohli (1996) find that a balance between informal and formal distribution mechanisms is ideal for maximizing the quality of the information that is shared throughout the organization. Informal

communications offer greater opportunities for recipients to be more open and ask for more clarification, while formal communications tend to be more credible and verifiable, which in turn, motivates the recipients of the information to use it. In addition, their findings suggest that frequent information distribution improves the quality of information as perceived by the recipient. At the same time, too frequent communications can be counterproductive since they can cause information overload, where the recipient does not fully process the information.

Information Interpretation

Before an organization can act on new information, it must first interpret it (e.g., Day 1994; Sinkula, Baker, and Noordewier 1997). Information interpretation is the process by which an organization gives distributed information one or more commonly understood meanings (Huber 1991). This may entail formal techniques such as devil's advocacy or more informal ones such as team meetings where individuals share their interpretations of market information (e.g., Moorman 1995). In this context, disagreement among participants leads to a closer examination of the validity of different alternatives (Slater and Narver 1995). Particularly, a high level of equivocality in the market information (e.g., Sinkula 1994) generates multiple and conflicting views about the organizational situation and the course of action the organization should follow (Daft and Lengel 1986). In this case, the information may need to be cycled among members a number of times before the conflicts are resolved and a common interpretation is reached (Daft and Weick 1984).

In addition, the interpretation that is given to new information is influenced by the mental models of managers (e.g., Day and Nedungadi 1994; Huber 1991). These mental

models consist of decision rules for sorting incoming market information and of heuristics that are useful for determining how to act on such information (e.g., Day 1994). This enables managers to simplify and impose order on the ambiguous competitive environment, which in turn shapes their interpretation of the market situation (Day and Nedungadi 1994). In general, managers adopt distinct mental models of competitive advantage that differ in their relative emphasis on customer and competitor dimensions. If managers have adequate mental models that reflect reality, then their interpretation of the information is likely to lead to effective organizational actions (e.g., Sinkula, Baker, and Noordewier 1997). On the other hand, distorted mental models are conducive to misinterpretation and flawed responses. These negative consequences can be avoided by using scenarios and other devices that compel managers to articulate, inspect, and eventually modify their mental models (Day 1994).

Organizational Memory

It is essential for knowledge to be retained within the organization in spite of personnel turnover and the passage of time (e.g., Levitt and March 1988; Slater and Narver 1995). Organizational memory is the process by which organizations store knowledge for future use (Huber 1991). It may be manifested as shared beliefs (e.g., frames of reference, models, values, norms, and organizational stories), formal and informal routines (e.g., operating procedures and scripts), and physical artifacts (e.g., organizational structure and features of products) (Moorman and Miner 1997). The degree to which these are utilized determines how long organizational memory is preserved (Slater and Narver 1995).

According to Moorman and Miner (1997), organizational memory can be characterized as having four distinct dimensions: level, dispersion, accessibility, and content. The *level* of organizational memory is a function of the amount of stored information and experience the organization has about a given phenomenon (Moorman and Miner 1997). Organizations with high levels of organizational memory become more competent at filtering information, thereby separating relevant from irrelevant information (Sinkula 1994). As a result, these organizations distribute, interpret, and store less of the information they acquire. Although this filtering of information can be seen as an advantage, it can also bring negative outcomes. For instance, it can lead the organization to attend only to that information that aligns with historical actions and procedures, even when new procedures that may be more effective than old ones exist (Sinkula 1994; Slater and Narver 1995). The second dimension concerns the extent to which organizational memory is *dispersed* throughout the organization (Moorman and Miner 1997). Specifically, within organizations, memory can be stored in different retention bins such as in individuals, the organizational culture, and the workplace ecology (Walsh and Ungson 1991).

The third dimension, *accessibility*, refers to the degree to which organizational memory can be retrieved when necessary (Moorman and Miner 1997). Accessibility depends on the frequency in which a routine is used, the recency in which it was last used, and its organizational proximity (Levitt and March 1988). In particular, recently used and frequently used routines are more accessible, and hence, more easily retrieved than those that are seldom used. The last dimension, memory *content*, refers to the meaning of the information that is stored (Moorman and Miner 1997). It can be

procedural (i.e., knowledge associated with skills needed to perform a particular task) or declarative (i.e., knowledge about certain concepts, facts, or events).

In addition, organizational memory plays a number of important roles within organizations. First, it serves as an information filter, influencing the manner in which information and experiences are sorted (e.g., Moorman and Miner 1997; Sinkula 1994). Second, organizational memory enhances decision making and facilitates decision implementation (e.g., Walsh and Ungson 1991). Third, it functions as a source of answers to inquiries that the organization has encountered in the past (Day 1994). Particularly, memory influences an organization's ability to preserve long-term learning that builds from its history (Sinkula, Baker, and Noordewier 1997). Those organizations that fail to store knowledge and experiences about what has and has not worked in the past "will have to repeat their failures and rediscover their success formulas over and over again" (Day 1994, p. 44).

HYPOTHESES DEVELOPMENT

Based on the extant literature on organizational learning (e.g., Huber 1991; Sinkula 1994; Slater and Narver 1995), stakeholder-focused organizational learning is defined as the development of new stakeholder-related knowledge that facilitates changes in behaviors toward the stakeholders. A stakeholder is "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman 1984, p. 46). For a particular group or individual to fulfill these criteria, it must possess at least one of the following key attributes: power, legitimacy, or urgency (Mitchell, Agle, and Wood 1997). In this study, the focus is on the organization's knowledge about its *primary* stakeholders, who are those that are essential for the continued success of the

organization (Clarkson 1995). Primary stakeholder groups normally consist of customers, employees, suppliers, shareholders, regulators, and the community. On the basis of resource dependence theory, an organization depends on these six groups since they control important resources that are necessary for the survival of the organization (Pfeffer and Salancik 1978). The organization's dependence on these groups for resources gives them power over the organization (Frooman 1999). In turn, the possession of power – one of the key attributes of stakeholders – designates the group as a stakeholder that merits managerial attention (Mitchell, Agle, and Wood 1997).

In addition, the focus of the study is on the marketing outcomes of this organizational learning about primary stakeholders. Two of the most important outcomes derived mainly from the market orientation and organizational learning literatures are responsiveness (e.g., Hult, Ketchen, and Slater 2005; Ketchen, Hult, and Slater 2007) and innovation (e.g., Han, Kim, and Srivastava 1998; Hurley and Hult 1998). Consistent with previous studies, the examination is centered on the impact of stakeholder-focused organizational learning on stakeholder-focused responsiveness. Stakeholder-focused responsiveness is defined as the organization's propensity to take action in response to the stakeholder-related knowledge that is acquired, distributed, interpreted, and stored (e.g., Kohli and Jaworski 1990). Recent research has found that the information an organization learns through market research may affect its decision to pursue either a strategy of innovation or imitation (e.g., Ofek and Turut 2008). This suggests that the way the organization responds to stakeholder-focused organizational learning varies in the degree its stakeholder practices are characterized as innovative or imitative. Hence, both innovation and imitation are treated as forms of responsiveness.

Stakeholder-Focused Organizational Learning and Responsiveness

The first set of hypotheses links the four processes of stakeholder-focused organizational learning with responsiveness. The resource-based view (RBV) of the firm (e.g., Wernerfelt 1984) provides the rationale for the expectation that each learning process influences the organization's response toward the stakeholders. The RBV holds that the resources possessed by a firm enable the firm to conceive of value-creating strategies that improve its efficiency and effectiveness (Barney 1991). This creates a competitive advantage, which in turn, results in superior performance. As such, a central premise of this theoretical perspective is that resources "allow the firm to do a better job of taking strategic actions" (Ketchen, Hult, and Slater 2007, p. 962). Drawing on the RBV, the contention is not that the four learning processes (knowledge acquisition, information distribution, information interpretation, and organizational memory) represent unique resources independently, but that the confluence of these processes can create a unique learning resource (cf. Hult, Ketchen, and Slater 2005). This resource – stakeholder-focused organizational learning – enables the organization to respond to stakeholders by taking better actions (cf. Day 1994; Slater and Narver 1995).

Stakeholder-focused organizational learning contains several key attributes that classify this type of learning as a strategic resource. First, it is valuable, given that it allows the organization to respond to environmental opportunities and threats (i.e., stakeholder demands) by implementing strategies that could enhance its efficiency or effectiveness (e.g., Barney 1991; Newbert 2008). Second, stakeholder-focused organizational learning is rare, because it is not widely held. It is likely that most organizations concentrate on only a few stakeholders and not on all primary stakeholders.

Third, it is non-substitutable and inimitable (Barney 1991). In particular, stakeholder-focused organizational learning is path-dependent, which deters imitation given the difficulty of repeating the developmental process and the significant time lag involved (e.g., Peteraf 1993). For this resource, history matters. For instance, organizational memory, a process related to organizational learning, houses information about past experiences with stakeholders, which could then be used for future interactions (e.g., Huber 1991). This type of learning is also a very complex social phenomenon. As such, even if the organization's competitors understand that it is a source of competitive advantage, they may not engage in systematic efforts to replicate it due to the difficulty this entails (Barney 1991).

Knowledge acquisition and responsiveness. The first prediction links knowledge acquisition and stakeholder-focused responsiveness. According to the information processing literature, data collection (i.e., knowledge acquisition) is an antecedent to action (e.g., Daft and Weick 1984). Those organizations that actively engage in stakeholder-focused knowledge acquisition activities recognize stakeholder needs before their rivals and are motivated to find solutions to those needs (e.g., Slater and Narver 1995). In addition, organizations that regularly obtain information about procedures and practices that do and do not work respond to this information by modifying their procedures with the objective of improving productivity and customer satisfaction (e.g., Day 1994). This suggests that by continuously monitoring the outcomes of their stakeholder practices, organizations take actions aimed at enhancing such practices and ultimately at improving stakeholder satisfaction. Hence, the hypothesis is that the more

the organization emphasizes stakeholder-focused knowledge acquisition activities, the more responsive it will be to stakeholder needs in its most important country market.

Information distribution and responsiveness. The organizational learning literature suggests that as stakeholder-related information is distributed throughout the organization, individuals and units gain new understanding about stakeholders and their needs (e.g., Huber 1991). As a result, the organization as a whole becomes more educated and aware of stakeholders' demands, which improves the organization's ability "to make rapid decisions and execute them effectively" (Slater and Narver 1995, p. 65). As such, the process of information distribution shapes the organizational direction of the organization (e.g., Kohli and Jaworski 1990). Consistent with this contention, Sinkula, Baker, and Noordewier (1997) empirically found that market information distribution directly affects the extent to which an organization changes its marketing strategies. Accordingly, the expectation is that an organization is more responsive to stakeholders' demands if stakeholder-related information is widely distributed throughout the organization.

Information interpretation and responsiveness. A central tenet of the information processing literature is that an organization's interpretation of information about its external environment influences the actions (e.g., strategies) it subsequently takes (e.g., Daft and Weick 1984). Information interpretation leads to a shared understanding of opportunities and problems that exist in the organization's environment, which in turn provides a concerted direction for individuals throughout the organization (e.g., Daft and Lengel 1986). Empirical research also provides support for this premise (e.g., Thomas, Clark, and Gioia 1993). Building on these notions, it is expected that an

organization that actively interprets information concerning stakeholders will be more responsive to their needs than organizations that do otherwise.

Organizational memory and responsiveness. Organizational memory is also expected to be positively associated with stakeholder-focused responsiveness. A powerful feature of organizational memory is its role in guiding actions (e.g., Moorman and Miner 1997). For instance, an organization's memory may contain policies and procedures for dealing with particular stakeholders (e.g., Day 1994). This, in turn, dictates individual and group actions toward the stakeholders (Moorman and Miner 1997). In addition, the stakeholder information that is housed in organizational memory can contribute to efficient and effective decision making (e.g., Walsh and Ungson 1991). By reviewing its past decisions, an organization can determine which actions are likely to satisfy stakeholder demands, as well as which are likely to produce negative outcomes, such as the withdrawal of economic or social participation in the form of boycotts. This decision response information that resides in the memory shapes the way the organization responds to a current decision situation. As such, the expectation is that an organization with a high level of organizational memory that is rich in knowledge about stakeholder claims and about standard practices for treating stakeholders will be more responsive to stakeholders than other organizations with lower levels of organizational memory (cf. Moorman and Miner 1998a).

Consistent with theory, conceptual logic, and the supporting empirical literature regarding knowledge acquisition, information distribution, information interpretation, and organizational memory, the following hypothesis states:

H1: Stakeholder-focused responsiveness is positively influenced by (a) stakeholder-focused knowledge acquisition, (b) stakeholder-related information distribution, (c) stakeholder-related information interpretation, and (d) stakeholder-focused organizational memory.

Knowledge Acquisition Mechanisms, Innovation, and Imitation

The manner in which the organization responds to the knowledge it acquires about stakeholders and their needs is a function of the mechanism it relies on to collect such information. In particular, the contention is that to the extent an organization acquires stakeholder-related information from direct experience (i.e., experiential learning), it will respond with more innovative stakeholder practices. Innovative stakeholder practices are defined as those practices that are targeted toward the organization's stakeholders, which are new to the market (e.g., Garcia and Calantone 2002). Alternatively, an organization that relies more on vicarious learning will be more inclined to respond to stakeholders' demands by engaging in imitative stakeholder practices. These are practices that are not new to the market, as they have already been executed by the organization's rivals, suppliers, clients, partners, or by other organizations, not necessarily within the same field as the organization. An organization that undertakes stakeholder-related knowledge acquisition activities through contact learning can respond to stakeholders either by engaging in innovative or imitative stakeholder practices.

The literature on organizational learning suggests that organizations that acquire information about stakeholders from externally-focused experience or exploration (i.e., experiential learning) are likely to discover and implement innovative stakeholder practices (e.g., Levinthal and March 1993; McGrath 2001). Specifically, exploration is related to experimentation with new alternatives (e.g., March 1991). Potential consequences of this include the development of new technologies, processes, products,

or modes of management (e.g., Levinthal and March 1993; McGrath 2001). Similarly, it has been argued that exploration facilitates generative learning (e.g., Slater and Narver 1995), which in turn, leads to radical innovation (e.g., Baker and Sinkula 2002). He and Wong (2004) provide empirical support for the positive association between exploration and product innovation intensity. As such, the organization's degree of innovative stakeholder practices is expected to be strongly related to stakeholder-focused experiential knowledge acquisition.

Institutional theory and the literatures on competitive strategy and organizational learning provide the basis for the expectation that an organization's degree of imitative stakeholder practices is closely related to stakeholder-focused vicarious learning. According to institutional theory (specifically to the idea of mimetic isomorphism), under conditions of environmental uncertainty, organizations observe the actions of others in their field (i.e., vicarious learning), especially of those that they perceive to be more legitimate or successful, and then imitate those actions in an attempt to gain legitimacy (e.g., DiMaggio and Powell 1983). Within the context of an organization's interactions with stakeholders, attaining legitimacy is pivotal. This is evident by the attention given to the proliferation of rankings, such as *Fortune's* "Most Admired Companies," which periodically evaluates organizations' performance with regard to how they treat stakeholders (e.g., Waddock, Bodwell, and Graves 2002). Hence, organizations that are unclear about how to deal with their stakeholders are likely to engage in vicarious learning and to replicate the stakeholder practices of other organizations.

Consistent with the notion of mimetic isomorphism, the competitive strategy literature asserts that organizations observe and copy the behaviors of their successful

rivals (e.g., Grewal and Dharwadkar 2002). This suggests that organizations that study how admired organizations respond to stakeholders will imitate the stakeholder practices of those organizations (cf. Dickson 1992). The third research stream that allows for the connection between imitative stakeholder practices and vicarious learning is organizational learning. According to this research stream, organizations do not simply mimic common practices and routines as stipulated by institutional theory, but instead engage in inferential learning (e.g., Miner and Haunschild 1995). As such, they observe the benefits and drawbacks that other organizations obtain from their strategic decisions and only imitate those decisions that seem to produce positive outcomes (e.g., Ordanini, Rubera, and DeFillippi 2008).

Several studies empirically demonstrate that organizations engage in vicarious learning and imitate others based on outcomes, traits, and frequency in a variety of contexts including investment banking decisions (Haunschild and Miner 1997), market choices (Korn and Baum 1999), and new product introductions (Srinivasan, Haunschild, and Grewal 2007). Based on these findings and building on institutional theory and the literatures on competitive strategy and organizational learning, it is likely that those organizations that acquire stakeholder-related information by observing the stakeholder practices of other organizations will respond to stakeholders by employing similar practices.

Knowledge acquisition through contact learning is similar to that of vicarious learning in that it can result in imitative practices. Social network theory suggests that those organizations that are connected to greater network ties are likely to obtain more information about their contacts, which in turn facilitates imitation (e.g., Lieberman and

Asaba 2006). In a study that builds on institutional theory, Galaskiewicz and Wasserman (1989) find that when organizations are faced with ambiguous situations, they are likely to imitate those organizations with which they have network ties. This occurs because network ties enable managers to observe how other organizations deal with environmental conditions comparable to their own and to learn about strategies that they themselves might subsequently adopt. Similarly, the relationship between contact learning and imitative practices can be explained from an organizational learning perspective. Kraatz (1998) finds that organizations engage in an inferential learning process, where they imitate the actions of network contacts whose actions have been more successful.

Conversely, information acquired from an organization's contacts can be a source of innovation development (e.g., Imai, Nonaka, and Takeuchi 1985). Powell, Koput, and Smith-Doerr (1996, p. 142) conclude that "the locus of innovation is found within the networks of interorganizational relationships." According to these authors, an organization's network ties facilitate innovation given that they both provide timely access to information that is otherwise unavailable and enable the organization to expand its own learning capabilities. Therefore, those organizations that acquire stakeholder-related information through contact learning should respond to stakeholders with innovative practices of a lesser degree than those organizations that rely on experiential learning. These organizations should also respond with imitative practices of a lesser degree than those that acquire vicarious knowledge. The preceding discussion leads to the following hypotheses:

H2a: The organization's degree of innovative stakeholder practices is associated with the degree of stakeholder-focused experiential knowledge acquisition, the degree of stakeholder-focused contact knowledge acquisition, and the degree of stakeholder-focused vicarious knowledge acquisition in descending order of importance.

H2b: The organization's degree of imitative stakeholder practices is associated with the degree of stakeholder-focused vicarious knowledge acquisition, the degree of stakeholder-focused contact knowledge acquisition, and the degree of stakeholder-focused experiential knowledge acquisition in descending order of importance.

Combinative Effects between Knowledge Acquisition Mechanisms

As discussed above, various theoretical bases (e.g., institutional theory, social network theory) and literature streams (e.g., organizational learning, competitive strategy) point to several different mechanisms of knowledge acquisition. Typically, organizations do not restrict themselves to a sole method, but instead draw on some combination of these methods to acquire information (e.g., Lieberman and Asaba 2006). This occurs because: "Knowledge facilitates the use of other knowledge" (Powell, Koput, and Smith-Doerr 1996, p. 120). For instance, an organization that collects stakeholder-related information from disparate sources is likely to be more cognizant of the needs of its stakeholder and of stakeholder practices executed by other organizations. This complementary information equips the organization to respond more effectively to its stakeholders. Similarly, the concept of "combinative capabilities" suggests that organizations synthesize and apply stakeholder-related information acquired from different sources to respond to market opportunities (Kogut and Zander 1992). Accordingly, the prediction is that organizations that rely on a combination of stakeholder-focused knowledge acquisition mechanisms use this complementary information to respond to stakeholders. Stated formally:

H3: The combinative effects between each pair of stakeholder-focused knowledge acquisition types (a: experiential; b: vicarious, and c: contact) have a positive association with stakeholder-focused responsiveness.

METHOD

Data Collection

An online survey was constructed, using Qualtrics, to assess stakeholder practices and stakeholder-focused knowledge (e.g., knowledge acquisition, information distribution, information interpretation, organizational memory, responsiveness, innovativeness, and imitativeness). The mailing list was purchased from Dun and Bradstreet Information Services. Given the paper's focus on stakeholder issues related to the marketplace of a firm, both marketing and supply chain executives were targeted as potential respondents.

Through a qualifying email invitation sent to marketing and supply chain executives at 1,072 firms, a total of 598 executives were identified as willing to respond to the survey on stakeholder practices. The executives in the sampling frame had managerial positions with titles such as Brand Manager, Director of Strategic Marketing, Vice President of Marketing, Project Manager, Director of Supply Chain Operations, and Vice President of Operations. The firms represented a broad cross-section of industries (e.g., computers, express delivery, food, retail, automotive, and defense).

Prior to collecting the data, the scale items were pre-tested with 10 experts in stakeholder, marketing, supply chain, and social science research practices. The pretest resulted in some changes being made, mainly to the instructions to the respondents. Huber and Power's (1985) guidelines were followed on how to get quality data from key informants. The survey was developed using the method established by Dillman, Smyth,

and Christian (2009). A cover letter was sent via email, which included a web link to the survey which was constructed using Qualtrics.

The surveys were made available online via Qualtrics to the 598 identified managers between March 15 and March 26 of 2010. Three waves of survey mailings were performed, with a total of 349 executives responding for an effective response rate of 58.36 percent. These individuals represented SBUs of 285 different firms (or 26.58 percent of the 1,072 firms). Each wave of surveys (first, second, third) was sent out on a different weekday (with 2 to 7 days in between each mailing) and/or at a different time to maximize the likelihood of obtaining responses. The first wave (March 15, 2010) resulted in 146 responses, the second wave (March 22, 2010) resulted in 102 responses, and the third wave (March 24, 2010) resulted in 101 responses. The data collection concluded at the end of the business day on March 26, 2010.

The 349 respondents included 53.9 percent marketing executives and 46.1 percent supply chain executives. Table 14 reports the demographics of the firms in the sample. In terms of the respondents acting as key informants, they had an average score of 5.04 (standard deviation = 1.33) on the question "I have great knowledge of stakeholders pertaining to my industry" and an average of score of 5.09 (standard deviation = 1.24) on the question "I have great knowledge of stakeholder practices in my organization." Both questions used a seven-point Likert-type scale ranging from "strongly disagree" to "strongly agree." In addition, on a scale from 1 = crucial to 7 = negligible, the respondents rated the overall importance of each of the six stakeholders as: 1.31 (standard deviation = .70) for customers, 1.62 (standard deviation = .90) for employees, 2.25 (standard deviation = 1.07) for shareholders, 2.40 (standard deviation = 1.03) for

suppliers, 2.62 (standard deviation = 1.09) for regulators, and 2.77 (standard deviation = 1.22) for local communities.

TABLE 14

Demographics of the Firms in the Sample (n=349)

	Mean	Std. Dev.
Annual sales	$13.29 billion	$3.49 billion
Age	43.08 years	32.18 years
R&D Investments	$360.13 million	$1.10 billion
Advertising Expenditures	$311.22 million	$713.31 million
Intangible assets	$2.98 billion	$9.31 billion

Utilizing the procedures recommended by Armstrong and Overton (1977), no evidence of non-response bias was found when comparing the first and last quartiles of the respondents on the study measures. Additionally, no statistical difference was found between the firms in the sample and those not in the sample in annual sales for 2009 ($13.29 billion for the firms in the sample and $13.13 billion for the firms in the sampling frame that did not respond). The sampling method also follows stakeholder investigations of similar phenomena and the response rate compares favorably with other strategically oriented studies (e.g., Hult, Ketchen, and Arrfelt 2007).

Study Measures

Appendix C lists the measurement items used in the study. Where possible, established scales were adapted based on the context of this study. Specifically, the focus of the survey questions is on stakeholder-focused organizational learning (knowledge acquisition, information distribution, information interpretation, and organizational memory – Huber 1991) and two types of outcomes (responsiveness and innovation/imitation).

Knowledge Acquisition. Three types of knowledge acquisition were used in this study (i.e., experiential, vicarious, and contact), based on work in market orientation (e.g., Kohli, Jaworski, and Kumar 1993), organizational learning (e.g., Miner and Haunschild 1995), and institutional theory (e.g., Galaskiewicz and Wasserman 1989). Each of the scales is made up of four items. The *experimental knowledge acquisition* scale is adapted from Kohli, Jaworski, and Kumar's (1993) intelligence generation scale. This scale has been shown to have adequate measurement properties. For example, studies using this scale report reliabilities ranging from .66 to .80 (e.g., Hult, Ketchen, and Arrfelt 2007; Hult, Ketchen, and Slater 2005; Jaworski and Kohli 1993; Matsuno and Mentzer 2000). The experimental knowledge acquisition scale captures an organization's gathering of stakeholder-related information through searching (March 1991).

New scales were developed for the other two types of knowledge acquisition based on the general structure of the intelligence generation items in the MARKOR scale (Kohli, Jaworski, and Kumar 1993). The *vicarious knowledge acquisition* scale reflects an organization's acquisition of stakeholder-related information by observing the behavior toward stakeholders of other organizations with whom it has no direct links with (i.e., competitors) (e.g., Ordanini, Rubera, and DeFillippi 2008). The *contact knowledge acquisition* scale captures the acquisition of stakeholder-related information by observing the stakeholder practices of others with whom the organization has a relationship (e.g., Ordanini, Rubera, and DeFillippi 2008).

Information distribution. To measure information distribution, items from Kohli, Jaworski, and Kumar's (1993) intelligence dissemination were adapted to the study context. Previous studies have reported good reliabilities for this scale, ranging from .78

to .82 (e.g., Hult, Ketchen, and Arrfelt 2007; Jaworski and Kohli 1993; Matsuno and Mentzer 2000). The scale consists of five items that capture the distribution of stakeholder information across the organization.

Information interpretation. The information interpretation measure was motivated by Hult, Ketchen, and Slater's (2004) two-item scale of shared meaning, which was subsequently expanded to a four-item scale by Hult, Ketchen, and Arrfelt (2007). This scale is based on Huber (1991) and has been shown to have good reliability, as it has ranged from .92 to .94 (e.g., Hult, Ketchen, and Arrfelt 2007; Hult, Ketchen, and Slater 2004). The scale captures an organization's interpretation of stakeholder information.

Organizational memory. Moorman and Miner's (1997) organizational memory scale was adapted for this study. In direct and adapted versions of this scale, reliabilities have ranged from .79 to .96 (e.g., Moorman and Miner 1997, 1998b; Hanvanich, Sivakumar, Hult 2006). As adapted, the scale consists of four items that capture the amount of knowledge, experience, and familiarity an organization has about its stakeholders relative to its major competitors.

Responsiveness. Responsiveness is measured based on a scale adapted from Kohli, Jaworski, and Kumar's (1993) study of market orientation (MARKOR). Previous studies provide evidence of the adequacy of this measure in terms of reliability. Specifically, reliabilities have ranged from .74 to .88 (e.g., Hult, Ketchen, Cavusgil, and Calantone 2006; Hult, Ketchen, and Slater 2005; Jaworski and Kohli 1993; Matsuno and Mentzer 2000). The scale consists of five items and captures the extent to which an organization takes action to stakeholder-related information (e.g., Kohli and Jaworski 1990).

Innovativeness. The innovativeness measure was adapted from the scale developed by Hurley and Hult (1998), which has been proven to have good measurement properties. For example, the reliabilities of this scale have ranged from .77 to .90 (e.g., Hurley and Hult 2008; Luo, Sivakumar, and Liu 2005; Menguc and Auh 2006; Hult, Ketchen, and Arrfelt 2007). As adapted, the scale consists of four items.

Imitativeness. The imitativeness scale was motivated by Hurley and Hult's (1998) innovativeness scale, which, as was previously discussed, has been shown to have good measurement properties. The scale was modified accordingly to reflect the imitative nature of this measure as opposed to the innovative nature of Hurley and Hult's (1998) scale. The imitativeness scale consists of four items.

Confirmatory Factor Analysis and Hierarchical Regression

The psychometric properties were evaluated simultaneously in one confirmatory factor analysis (CFA) using LISREL 8.80 (Jöreskog, Sörbom, Du Toit and Du Toit, 2000). This included nine latent constructs which were all stakeholder focused (experiential knowledge acquisition, vicarious knowledge acquisition, contact knowledge acquisition, information distribution, information interpretation, organizational memory, responsiveness, innovativeness, and imitativeness) and their total set of 40 reflective measures.

The relationships detailed in Hypotheses 1, 2a, 2b, and 3 were tested via hierarchical regression (H1, H2a, and H2b) and interaction-based hierarchical regression (H3). Four regression models were specified to examine the hypotheses. All equations included three control variables which were entered in step 1 in each case. The control variables entered in step 1 of each of the four regression models were the same and

included a dummy variable for the industry (6-digit NAICS code), size (natural log of total sales), and age (natural log of age).

To examine H1, a hierarchical regression model was conducted with controls entered in step 1 and experiential knowledge acquisition, vicarious knowledge acquisition, contact knowledge acquisition, information distribution, information interpretation, and organizational memory entered in step 2. To examine H2a and H2b, a hierarchical regression was conducted with controls entered in step 1 and experiential knowledge acquisition, vicarious knowledge acquisition, and contact knowledge acquisition entered in step 2. H2a used innovativeness as the criterion variable while H2b used imitativeness as the criterion variable.

To examine H3, an interaction-based hierarchical regression was conducted with controls entered in step 1; experiential knowledge acquisition, vicarious knowledge acquisition, and contact knowledge acquisition entered in step 2; and the three interactions entered in step 3 (i.e., experiential knowledge acquisition * vicarious knowledge acquisition; experiential knowledge acquisition * contact knowledge acquisition; and vicarious knowledge acquisition * contact knowledge acquisition).

RESULTS

Measurement Results

Table 15 reports the means, standard deviations, correlation matrix, and shared variances for the nine study constructs. Table 16 summarizes the measurement analysis (i.e., composite reliabilities, average variances extracted, factor loadings, and fit statistics). All measures were subjected to reliability and validity assessments.

TABLE 15

Means, Standard Deviations, Correlations, and Shared Variances (n=349)

	Mean	Std. Dev.	EKA	VKA	CKA	ID	II	OM	RE	IN	IM
Experimental Knowledge Acquisition (EKA)	4.97	1.27	1.00	.41	.27	.40	.32	.40	.41	.24	.05
Vicarious Knowledge Acquisition (VKA)	4.86	1.39	.64	1.00	.40	.26	.20	.27	.24	.13	.08
Contact Knowledge Acquisition (CKA)	4.58	1.24	.52	.63	1.00	.19	.13	.22	.18	.12	.05
Information Distribution (ID)	4.54	1.31	.63	.51	.44	1.00	.58	.36	.48	.36	.12
Information Interpretation (II)	4.49	1.34	.57	.45	.36	.76	1.00	.32	.49	.30	.12
Organizational Memory (OM)	5.38	1.49	.63	.52	.47	.60	.57	1.00	.38	.28	.04
Responsiveness (RE)	4.81	1.17	.64	.49	.42	.69	.70	.62	1.00	.50	.09
Innovativeness (IN)	4.74	1.40	.49	.36	.34	.60	.55	.53	.71	1.00	.03
Imitativeness (IM)	4.74	1.27	.22	.29	.22	.35	.35	.21	.30	.18	1.00

Correlations are included below the diagonal (each has $p<.01$). The shared variances are included above the diagonal.

TABLE 16

Composite Reliabilities, Average Variances Extracted, Factor Loadings, and Fit Statistics (n=349)

Construct	Composite Reliability	Average Variance Extracted	Factor Loadings Range
Experimental Knowledge Acquisition (EKA)	.86	.62	.70 - .86
Vicarious Knowledge Acquisition (VKA)	.93	.76	.85 - .88
Contact Knowledge Acquisition (CKA)	.87	.70	.77 - .87
Information Distribution (ID)	.88	.61	.71 - .85
Information Interpretation (II)	.92	.75	.83 - .91
Organizational Memory (OM)	.95	.86	.83 - .98
Responsiveness (RE)	.82	.61	.73 - .87
Innovativeness (IN)	.94	.84	.87 - .95
Imitativeness (IM)	.93	.81	.87 - .95

Fit Statistics:
$\chi^2 = 2187.22$
Degrees of Freedom = 428
NFI = .95
DELTA2 = .95
CFI = .95
RMSR = .06

Fit statistics. The CFA model fit was evaluated using a series of fit indices recommended by Gerbing and Anderson (1992) and Hu and Bentler (1999) – the normed fit index (NFI), DELTA2, comparative fit index (CFI), and root mean square residual (RMSR) – along with the reporting of chi-square (χ^2) and degrees of freedom (d.f.). After removing eight items with loadings below .70 (cf. Fornell and Larcker 1981), an excellent fit to the data was achieved in the confirmatory factor analysis. The NFI = .95, DELTA2 = .95, CFI = .95, and RMSR = .06 ($\chi^2 = 2187.22$, d.f. = 428).

Composite Reliability. The nine latent factors' reliabilities were assessed by calculating their composite reliability (Fornell and Larcker 1981). The factor loadings and their t-values were also examined (Anderson and Gerbing 1988). The scales' reliabilities ranged from .82 to .95, all of which are above the recommended threshold for

CFA-based composite reliabilities (Peter 1979). The factor loadings ranged from .70 to .98 ($p<.01$). Table 12 reports the complete CFA results.

Discriminant Validity. The scales were also found to have good discriminant validity via two analyses. First, by comparing the average variances extracted (AVE) for each scale with the pairwise shared variances of all possible combinations among the nine scales, the AVEs ranged from .61 to .86 while the shared variances ranged from .03 to .58. Second, the technique suggested by Bagozzi and Phillips (1982) was used to again examine discriminant validity via a different type of analysis. This entails examining all possible pairs of the nine constructs in a series of two-factor CFA models using LISREL 8.80 (Jõreskog et al. 2000). Specifically, each pairwise CFA model was run twice. In the first analysis, the φ coefficient was constrained to unity. In the second analysis, the φ coefficient was allowed to vary freely. Based on the results of a χ^2 difference test between pairs of constructs, the unconstrained models were better than the associated constrained models (i.e., $\chi^2_{(1)} > 3.84$ was exceeded in all cases, with the $\Delta\chi^2_{(1)}$ ranging from 179.92 to 923.82 for all possible pairwise combinations).

Common Method Variance. Following Olson, Slater, and Hult (2005), the one-factor test was employed to examine if common method variance was inherent in the dataset (McFarlin and Sweeney 1992; Podsakoff and Organ 1986; Sanchez and Brock 1996). The logic behind this test is that if common method variance poses a serious threat, a single latent factor would account for all manifest variables. The one-factor model resulted in a $\chi^2 = 6066.38$ with d.f. = 464 versus $\chi^2 = 2187.22$ with d.f. = 428 for the theoretically defined measurement model. Thus, the $\Delta\chi^2_{(36)} = 3879.16$ and no

empirical evidence exists that common method variance is a serious inhibiting element in testing the hypotheses.

Hypothesis Results

Four regression models were conducted to assess H1, H2a, H2b, and H3. Cases with missing data were excluded listwise (i.e., any case with missing data was excluded), and the enter method was used to include variables in the equations at each step of the hierarchical regression analyses (cf. Cohen, Cohen, West, and Aiken 2003). All predictor variables and the control variables of age and size were standardized by mean centering. Industry was included as a dummy variable using the 6-digit NAICS code. The Variance Inflation Factors ranged from 1.00 to 3.72 for the predictor variables in the four equations, indicating that multicollinearity did not significantly affect the analysis (Cohen et al. 2003). The effect sizes – probability of finding the R^2s achieved – was at least $\beta>.90$ at $\alpha=.05$ using the method suggested by Cohen (1988). Tables 13 (H1), 14 (H2a), 15 (H2b), and 16 (H3) summarize the results.

Organizational Learning and Responsiveness (H1). As can be seen in Table 17, a number of significant relationships were detected at an effect size of $\beta>.99$ ($\alpha=.01$). Based on the step 2 results, the control variables of size ($\beta=-.17$, $p<.01$) was significant but age and industry were not. The direct effects of experiential knowledge acquisition ($\beta=.23$, $p<.01$), contact knowledge acquisition ($\beta=.11$, $p<.10$), information distribution ($\beta=.27$, $p<.01$), information interpretation ($\beta=.26$, $p<.01$), and organizational memory ($\beta=.13$, $p<.10$) significantly affected stakeholder-focused responsiveness but vicarious knowledge acquisition did not. The $\Delta R^2=.63$ ($p=.01$) between step 1 (controls) and step 2 (direct effects), and the equation had $R^2=.67$ and Adjusted $R^2=.64$. The Variance Inflation

Factors ranged from 1.06 to 3.72 for the nine variables in the model. These results indicate that H1a, H1c, H1d, H1e, and H1f were supported but not H1b.

TABLE 17

Hierarchical Regression Results with Stakeholder-Focused Responsiveness as the Criterion Variable (H1)

	Standardized Beta (β)	t-Statistic	Significance (p)
Step 1: Controls			
Industry	.08	.80	.42
Firm Size	-.17	-1.84	.07
Firm Age	.05	.51	.61
R-square =.04			
Adjusted R-square =.01			
F-value 1.40 (p=.25)			
Step 2: Direct Effects			
Industry	-.06	-1.04	.30
Firm Size	-.17	-2.86	.01
Firm Age	-.08	-1.38	.17
Experiential Knowledge Acquisition	.23	2.66	<.01
Vicarious Knowledge Acquisition	-.02	-.19	.85
Contact Knowledge Acquisition	.11	1.35	.09
Information Distribution	.27	2.47	<.01
Information Interpretation	.26	2.66	<.01
Organizational Memory	.13	1.59	.06
R-square =.67			
Adjusted R-square =.64			
ΔR-square =.63 (p<.01)			
F-value=23.46 (p<.01)			
Effect Size: β>.99 (α=.01)			

One-tailed tests were used for the direct (hypothesized) relationships and two-tailed tests were used for the control variables.

Knowledge Acquisition and Innovativeness (H2a). As can be seen in Table 18, the model testing supported the basic premise of H2a that experiential knowledge acquisition is the primary driver of innovativeness. At an effect size of β>.99 (α=.01), based on the step 2 results, experiential knowledge acquisition was found to affect innovativeness (β=.45, p<.01) but neither of the vicarious knowledge acquisition, contact knowledge acquisition, or controls was significant in the model. The ΔR^2=.25 (p=.01) between step 1 (controls) and step 2 (direct effects), and the equation had R^2=.28 and

Adjusted R^2=.24. The Variance Inflation Factors ranged from 1.01 to 2.55 for the six variables in the model. These results indicate that H2a was partially supported, with the most critical aspect of the hypothesis being supported (i.e., that experiential knowledge acquisition is the key knowledge acquisition driver of innovativeness).

TABLE 18

Hierarchical Regression Results with Innovativeness as the Criterion Variable (H2a)

	Standardized Beta (β)	t-Statistic	Significance (p)
Step 1: Controls			
Industry	.07	.78	.44
Firm Size	-.06	-.59	.56
Firm Age	.16	1.73	.09
R-square =.03			
Adjusted R-square =.01			
F-value 1.26 (p=.29)			
Step 2: Direct Effects			
Industry	-.00	-.02	.98
Firm Size	-.02	-.20	.85
Firm Age	.11	1.26	.21
Experiential Knowledge Acquisition	.45	4.28	<.01
Vicarious Knowledge Acquisition	-.02	-.16	.44
Contact Knowledge Acquisition	.12	1.02	.15
R-square =.28			
Adjusted R-square =.24			
ΔR-square =.25 (p<.01)			
F-value=6.68 (p<.01)			
Effect Size: β>.99 (α=.01)			

One-tailed tests were used for the direct (hypothesized) relationships and two-tailed tests were used for the control variables.

Knowledge Acquisition and Imitativeness (H2b). As can be seen in Table 19, the model testing supported the basic premise of H2b that vicarious knowledge acquisition is the primary driver of imitativeness. At an effect size of β>.90 (α=.05), based on the step 2 results, vicarious knowledge acquisition was found to affect imitativeness (β=.21, p<.10), as was the control of industry (β=.-.16, p<.10), but neither of the experiential knowledge acquisition, contact knowledge acquisition, or controls of age and size was significant in

the model. Given that they key variable – vicarious knowledge acquisition – was only significant at the $p<.10$ level, two additional regression analyses were conducted to examine the relationships in a fine-grained manner. Specifically, the model was run with both pairwise exclusion of data and mean substitution of data with missing values, in addition to the listwise deletion of data used for all regression models, and both additional models rendered vicarious knowledge acquisition significant at the $p<.05$ level. The $\Delta R^2=.10$ ($p=.01$) between step 1 (controls) and step 2 (direct effects), and the equation had $R^2=.12$ and Adjusted $R^2=.07$. The Variance Inflation Factors ranged from 1.01 to 2.59 for the six variables in the model. These results indicate that H2b was partially supported, with the most critical aspect of the hypothesis being supported (i.e., that vicarious knowledge acquisition is the key knowledge acquisition driver of imitativeness).

TABLE 19

Hierarchical Regression Results with Imitativeness as the Criterion Variable (H2b)

	Standardized Beta (β)	t-Statistic	Significance (p)
Step 1: Controls			
Industry	-.10	-1.02	.31
Firm Size	.01	.08	.94
Firm Age	.09	.92	.36
R-square =.02			
Adjusted R-square =.01			
F-value .68 (p=.57)			
Step 2: Direct Effects			
Industry	-.16	-1.64	.10
Firm Size	.03	.37	.71
Firm Age	.05	.50	.62
Experiential Knowledge Acquisition	.07	.63	.26
Vicarious Knowledge Acquisition	.21	1.45	.08
Contact Knowledge Acquisition	.08	.64	.26
R-square =.12			
Adjusted R-square =.07			
ΔR-square =.10 (p<.01)			
F-value=2.41 (p<.05)			
Effect Size: β>.90 (α=.05)			

One-tailed tests were used for the direct (hypothesized) relationships and two-tailed tests were used for the control variables.

Combinative Knowledge Acquisition and Responsiveness (H3). As can be seen in Table 20, a number of significant relationships were detected at an effect size of β>.99 (α=.01). Based on the step 3 results, the control variable of size (β=-.13, p<.10) was significant but age and industry were not. The direct effects of experiential knowledge acquisition (β=.62, p<.01) and contact knowledge acquisition (β=.19, p<.05) significantly affected stakeholder-specific responsiveness but vicarious knowledge acquisition did not. The combinative effects of experiential knowledge acquisition * contact knowledge acquisition (β=-.35, p<.01) and vicarious knowledge acquisition * contact knowledge acquisition (β=.20, p<.05) affected responsiveness. The ΔR^2=.46 (p=.01) between step 1 (controls) and step 2 (direct effects), and the ΔR^2=.04 (p=.05) between step 2 and step 3

(combinative effects). The equation had an overall R^2=.54 and Adjusted R^2=.49. The Variance Inflation Factors ranged from 1.06 to 3.60 for the nine variables in the model. These results indicate that H3c was supported but not H3a and H3b.

TABLE 20

Interaction-Based Hierarchical Regression Results with Responsiveness as the Criterion Variable (H3)

	Standardized Beta (β)	t-Statistic	Significance (p)
Step 1: Controls			
Industry	.08	.80	.42
Firm Size	-.17	-1.84	.07
Firm Age	.05	.51	.61
R-square =.04			
Adjusted R-square =.01			
F-value 1.40 (p=.25)			
Step 2: Direct Effects			
Industry	-.03	-.38	.71
Firm Size	-.14	-1.97	.05
Firm Age	-.03	-.43	.67
Experiential Knowledge Acquisition	.53	6.19	<.01
Vicarious Knowledge Acquisition	.08	.74	.23
Contact Knowledge Acquisition	.18	1.81	<.05
R-square =.50			
Adjusted R-square =.47			
ΔR-square =46 (p=.07)			
F-value=17.75 (p<.01)			
Step 3: Combinative Effects			
Industry	-.04	-.53	.60
Firm Size	-.13	-1.82	.07
Firm Age	-.04	-.65	.52
Experiential Knowledge Acquisition	.62	6.82	<.01
Vicarious Knowledge Acquisition	.03	.25	.40
Contact Knowledge Acquisition	.19	1.91	<.05
EKA * VKA Combinative Effect	.17	1.50	.14
EKA * CKA Combinative Effect	-.35	-2.76	<.01
VKA * CKA Combinative Effect	.20	2.06	<.05
R-square =.54			
Adjusted R-square =.49			
ΔR-square =.04 (p<.05)			
F-value =13.37 (p<.01)			
Effect Size: β>.99 (α=.01)			

One-tailed tests were used for the direct (hypothesized) relationships and two-tailed tests were used for the control variables.

DISCUSSION AND IMPLICATIONS

A key objective of this study was to examine whether stakeholder-focused organizational learning influences the organization's propensity to take action in response to its stakeholders' needs. Drawing upon insights from institutional theory and the literatures on competitive strategy and organizational learning, it also investigated if the knowledge acquisition mechanisms the organization relies on to acquire stakeholder-related knowledge determine how innovative or imitative its stakeholder practices are. In addition, it examined the interaction effects that exist between the knowledge acquisition mechanisms. The empirical analysis based on the responses of 349 marketing and supply chain management executives to an online survey reveal that the four organizational learning processes have a direct effect on stakeholder-focused responsiveness. The results also indicate that while experiential knowledge acquisition is related to innovative stakeholder practices, vicarious knowledge acquisition is related to imitative ones. Furthermore, with one exception, combinative effects were found between the knowledge acquisition mechanisms. These findings have several important implications for research and practice.

First, this study addresses calls for research that broadens the scope of traditional marketing concepts to include additional stakeholders beyond the widely-studied customers, and to a lesser extent, suppliers (e.g., Maignan and Ferrell 2004). It achieves this by developing the construct of *stakeholder-focused organizational learning* which is more encompassing than market-based organizational learning (e.g., Sinkula, Baker, and Noordewier 1997) – and involves learning about the organization's primary stakeholders (i.e., customers, employees, suppliers, shareholders, regulators, and the community)

given that these groups are essential for the continued success of the organization (e.g., Clarkson 1995). Also, by studying stakeholder-focused organizational learning as an antecedent to stakeholder-focused responsiveness, this paper contributes to stakeholder theory, which holds that organizations that respond to their stakeholders have a competitive advantage over other organizations (e.g., Jones 1995). Research in this area has mostly focused on tying stakeholder practices and performance (e.g., Berman et al. 1999; Greenley and Foxall 1998; Hillman and Keim 2001). This is the first empirical study that shows that for organizations to be responsive to their stakeholders, they need to effectively acquire, distribute, interpret, and store stakeholder-related knowledge. In this context, further research is needed to explore other potential factors such as organizational culture that prompt firms to address their stakeholders' demands.

Furthermore, by identifying stakeholder-focused organizational learning as a strategic resource that enables the organization to respond to stakeholders by taking better actions, this study also contributes to the RBV (e.g., Barney 1991). Advocates of this theoretical perspective contend that the value of the RBV does not lie in predicting a simple resources-performance relationship as is often done in the literature, but in incorporating an "action" element into the framework to discover *what* organizations do with their resources that lead them to have a competitive advantage and superior performance (Ketchen, Hult, and Slater 2007). This study concentrated on the strategic resources-strategic action link of the RBV framework to examine if the possession of stakeholder-focused organizational learning results in responsiveness toward the organization's stakeholders. To fully capture the different components of the RBV framework, future research should investigate whether stakeholder-focused

responsiveness leads to a competitive advantage and better performance, and hence, if it functions as a mediator in the stakeholder-focused organizational learning–firm performance relationship. Even though both RBV and stakeholder theory predict that better performance should follow stakeholder-focused responsiveness, it is possible that too much stakeholder-focused organizational learning and responsiveness are detrimental to firm performance. Excessive attention to learning about and responding to stakeholders shifts the organization's focus away from other important issues such as productivity, which in turn would hamper performance.

The finding that an organization's degree of experiential learning is positively related to the degree of innovative stakeholder practices is consistent with the organizational learning literature. This literature suggests that investing significant resources to gain first-hand information about stakeholders through searching results in the experimentation of new stakeholder practices (e.g., March 1991), and ultimately, in the development of new technologies, processes, products, or modes of management (e.g., Levinthal and March 1993). On the other hand, it was found that contact knowledge acquisition and vicarious knowledge acquisition do not lead to innovative stakeholder practices. It seems that since these mechanisms consist of observing the stakeholder practices implemented by others, they do not prompt the organization to seek new solutions to fulfill stakeholder demands given that such action has already been taken by those organizations they observe. In a broader context, these findings suggest that the world's most innovative companies, such as Apple and Nintendo, which consistently offer inventive products that satisfy their stakeholders' demands and outperform their rivals in their business models and processes (BusinessWeek 2009), rely on experiential

knowledge acquisition as their primary mechanism to learn about their stakeholders' needs and wants.

Moreover, the results indicate that the degree of vicarious knowledge acquisition has a positive influence on the degree of imitative stakeholder practices, while experiential and contact knowledge acquisition have no effect. This is consistent with institutional theory, particularly with the notion of mimetic isomorphism, and with the literatures on competitive strategy and organization learning. Building on these streams, it seems that because organizations are unclear about how they should interact with their stakeholders, they (1) gather information about the stakeholder-focused actions taken by their competitors, (2) evaluate the outcomes these actions produce for their rivals, and (3) mimic those actions that produced positive outcomes. Hence, the vicarious knowledge acquisition-imitation link helps explain why in any particular industry, organizations engage in similar activities. One example is the automotive industry and the production of hybrid cars. While the hybrid car – which strongly caters to customers', regulators', and the community's demands – was originally developed by Toyota, it is now produced by a number of car manufacturers. Organizations such as General Motors and Ford that operate in the uncertain automotive industry observe the stakeholder practices of other successful automakers (e.g., Toyota and its production of the Prius hybrid car) and often imitate their competitors' practices (e.g., developing their own versions of the hybrid car) in an attempt to gain legitimacy.

Another contribution this study makes is that it is among the first to empirically examine the interactions between the different forms of knowledge acquisition. By doing so, it adopts a realistic model of learning (e.g., Lieberman and Asaba 2006) given that

firms often acquire information from different sources. The findings indicate that the combinative effects of vicarious knowledge acquisition and contact knowledge acquisition are positively related to stakeholder-focused responsiveness. These two knowledge acquisition mechanisms are similar in that they both consist of acquiring second-hand experience. As such, an organization that relies on them, in essence, requires the same set of skills – drawing inferences from the observed behavior of other organizations (e.g., Lieberman and Asaba 2006; Ordanini, Rubera, and DeFillippi 2008). By continuously engaging in both knowledge acquisition mechanisms to obtain stakeholder-related information, an organization can master this skill over time. This, in turn, allows the organization to efficiently synthesize the complementary information acquired, prompting it to respond more effectively to its stakeholders.

On the other hand, contrary to expectations, the combination of experiential knowledge acquisition and contact knowledge acquisition has negative effects on stakeholder-focused responsiveness. One possible explanation for this result is that these mechanisms require different sets of skills. As previously discussed, contact knowledge acquisition consists of observing the behavior of other organizations, specifically of those with whom the organization has ties (e.g., Ordanini, Rubera, and DeFillippi 2008). Alternatively, experiential knowledge acquisition requires the organization to be more proactive in scanning its external environment for first-hand information about stakeholders and their interests (e.g., Huber 1991). Hence, while experiential knowledge acquisition by itself prompts an organization to develop innovative solutions that respond to stakeholder demands, when combined with contact knowledge acquisition, the effect is negative due in part to the potentially conflicting stakeholder-related information the

organization gathers from its network ties and to the challenge the organization faces in synthesizing information acquired from such different sources. However, if the different skill sets these two mechanisms require is the reason for the findings, then it is still unclear why the combination of experiential knowledge acquisition and vicarious knowledge acquisition has no effects on stakeholder-focused responsiveness, given that these two also consist of different skill sets. Future research should investigate this further. In addition, further research is needed to explore the relationship between the combination of the knowledge acquisition modes and the level of innovativeness and imitativeness of the organization's stakeholder practices.

For managers, this study underscores the importance of cultivating stakeholder-focused organizational learning. Senior managers must make sure that mechanisms to facilitate stakeholder-focused knowledge acquisition, information distribution, interpretation, and storage are in place throughout the organization. These four processes are important given that they enable stakeholder-focused organizations to be cognizant of their stakeholders' needs, respond to these ever-changing needs in a timely manner, and hence nurture their stakeholder relationships over the long run. This, in turn, should translate into superior performance (Jones 1995). In addition, organizations that have as a top priority to be at the forefront of their industry in stakeholder practices must actively engage in experiential knowledge acquisition. While acquiring stakeholder-related information from second-hand experience keeps organizations informed about new stakeholder practices in the field (e.g., Huber 1991) and prompts them to respond, it is the knowledge that organizations acquire from the stakeholders themselves and from their experiences with these groups that leads them to be innovative.

APPENDIX C

Measures

Experiential Knowledge Acquisition (adapted from Kohli, Jaworski, and Kumar 1993, JMR)
[7-point Likert-type scale ranging from "strongly disagree" to "strongly agree"]
1. We meet with our stakeholders often to find out what they will need in the future.
2. We do a lot of in-house market research regarding our stakeholders.
3. We are fast to detect changes in our stakeholders' preferences.
4. We often review the likely effect of changes in the business environment on our stakeholders.

Vicarious Knowledge Acquisition (new scale based on Kohli, Jaworski, and Kumar 1993, JMR)
[7-point Likert-type scale ranging from "strongly disagree" to "strongly agree"]
1. We continually monitor the stakeholder-related actions of our main competitors.
2. We do a lot of benchmarking on our stakeholders and their relationship with our main competitors.
3. We are quick to detect changes in our main competitors' stakeholder practices.
4. We pay close attention to the outcomes experienced by our main competitors as a result of their stakeholder-related actions.

Contact Knowledge Acquisition (new scale based on Kohli, Jaworski, and Kumar 1993, JMR)
[7-point Likert-type scale ranging from "strongly disagree" to "strongly agree"]. "Other organizations" in the items below refer to primary suppliers, strategic partners, and business-to-business customers of your organization.
1. We observe closely the stakeholder practices of other organizations with which we have a relationship.
2. We do a lot of networking with other organizations to obtain information about our stakeholders.
3. We are able to learn about our stakeholders by working with other organizations.
4. Our relationships with other organizations provide timely access to information about our stakeholders.

Information Distribution (adapted from Kohli, Jaworski, and Kumar 1993, JMR)
[7-point Likert-type scale ranging from "strongly disagree" to "strongly agree"]
1. We have inter-unit meetings often to discuss stakeholder trends and developments.
2. Personnel in our unit often spend time discussing stakeholders' future needs with other units.
3. When something important happens to a major stakeholder, our unit knows about it within a short period.
4. Data on stakeholder satisfaction are disseminated at all levels in our unit on a regular basis.
5. When one unit finds out something important about our stakeholders, it is fast to alert relevant other units.

Information Interpretation (Motivated by Hult, Ketchen, and Slater 2004, AMJ; Hult, Ketchen, and Arrfelt 2007, SMJ)
[7-point Likert-type scale ranging from "strongly disagree" to "strongly agree"]
1. We develop a shared understanding of stakeholder-related information between units.
2. We develop a shared understanding of stakeholder-related information within our unit.
3. We develop a shared understanding of available stakeholder-related information in our organization.
4. We develop a shared understanding of the implications of a stakeholder activity.

Organizational Memory (adapted from Moorman and Miner 1997, JMR)
[7-point Likert-type scale ranging from "strongly disagree" to "strongly agree"]
Compared with major competitors in the industry, our organization has:
1. A great deal of knowledge about our stakeholders.
2. A great deal of experience with our stakeholders.
3. A great deal of familiarity with our stakeholders.
4. Invested a great deal of R&D to understand our stakeholders.

Responsiveness (Kohli, Jaworski, and Kumar 1993, JMR)
[7-point Likert-type scale ranging from "strongly disagree" to "strongly agree"]
1. For one reason or another we never ignore changes in our stakeholders' needs.
2. Several units get together periodically to plan a response to changes taking place regarding our stakeholders.
3. The stakeholder-focused activities of different departments in our business unit are well coordinated.
4. Stakeholder complaints never fall on deaf ears in our business unit.
5. When our stakeholders like us to modify our practices, we make a concerted effort to do so.

Innovativeness (adapted from Hurley and Hult 1998, JM)
[7-point Likert-type scale ranging from "strongly disagree" to "strongly agree"]
1. Innovative stakeholder practices are readily used in our organization.
2. Management actively implements innovative strategies pertaining to our stakeholders.
3. Innovation is readily implemented in program/project management of our stakeholders.
4. People are never penalized for new stakeholder-related innovations they tried that do not work.
5. Implementing innovations targeted to our stakeholders' needs is never perceived as too risky.

Imitativeness (new scale – adapted from innovativeness scale - Hurley and Hult 1998, JM)
[7-point Likert-type scale ranging from "strongly disagree" to "strongly agree"]
1. Imitative stakeholder practices are readily used in our organization.
2. Management actively implements imitative strategies pertaining to our stakeholders.
3. Imitation is readily implemented in program/project management of our stakeholders.
4. People are never penalized for stakeholder-related imitations they tried that do not work.
5. Implementing imitations targeted to our stakeholders' needs is never perceived as too risky.

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CONCLUSION

Traditionally, marketing studies have heavily focused on customers as the only stakeholder group that influences and is influenced by marketing phenomena. While notable contributions have been made in the literature, such a narrow view is no longer realistic. Today, multiple stakeholder groups, beyond the customers, impact the activities of the firm, including those of the marketing function. Given the increasing influence of stakeholders, this three-essay dissertation addressed the existing gap in the marketing literature by studying the importance of paying attention and responding to stakeholders across different levels of analysis.

Specifically, Essay 1 investigated whether developing marketing strategies based on a stakeholder-focused approach (i.e., one that emphasizes a broad set of stakeholders by devoting attention and resources to addressing their simultaneous interests) is more effective than developing strategies based on a market-driven approach (i.e., one that focuses on customers, employees, and suppliers, while placing relatively less emphasis on shareholders, regulators, and communities) in achieving market performance. Essay 2 took into account the reality that firms do not operate in a vacuum to examine how the stakeholder focus (i.e., amount of attention, resources, and time the firm devotes to addressing the interests of multiple stakeholder groups) of entities within a focal firm's supply chain environment and marketplace affect the stakeholder focus of the focal firm. In addition, it studied the link between a stakeholder focus and customer satisfaction, and reexamined the customer satisfaction–performance relationship. Essay 3 concentrated on how organizations learn about their stakeholders' interests to investigate whether stakeholder-focused organizational learning influences stakeholder-focused

responsiveness. It also examined whether the degree of innovative and imitative stakeholder practices is affected by the mechanisms the organization relies on to acquire stakeholder-related knowledge. Table 21 summarizes the main findings and the implications of the dissertation.

TABLE 21

Summary of the Main Findings and Implications of the Dissertation

	Findings	Implications
Essay 1		
Relative importance of a stakeholder-focused approach	Developing marketing strategy based on a broad, stakeholder-focused approach is more effective than a strategy based on a narrower, market-driven approach.	Attending to the demands of a broad set of stakeholders (beyond those of the customers, employees, and suppliers) when developing and implementing marketing strategies pays off. Managers should invest resources to: 1) Acquire information about the interests and expectations of all primary stakeholders; 2) Regularly monitor how the firm is meeting these expectations; and 3) Modify the firm's practices to better satisfy the relatively more important stakeholders.
Essay 2		
Stakeholder focus and customer satisfaction	While a negative stakeholder focus has an inverted U-shaped relationship with customer satisfaction, a positive stakeholder focus has no effect.	Stakeholder management is a zero sum game, where one stakeholder group gains at the expense of the others. A firm that has customer satisfaction as a key objective is better off giving priority to the interests of the customers by allocating more resources to ensure their satisfaction. This, in turn, will unavoidably take resources away from addressing the other stakeholders' interests.
Essay 3		
Stakeholder-focused knowledge acquisition mechanisms, innovation, and imitation	The degree of stakeholder-focused experiential knowledge acquisition is positively related to the degree of innovative stakeholder practices. The degree of stakeholder-focused vicarious knowledge acquisition is positively related to the degree of imitative stakeholder practices.	Investing significant resources to gain first-hand information about stakeholders results in the experimentation of new stakeholder practices, and ultimately, in the development of new technologies, processes, and products. Organizations that are unclear about how they should interact with their stakeholders: 1) Gather information about the stakeholder-focused actions taken by their competitors; 2) Evaluate the outcomes these actions produce for their rivals; and 3) Mimic those actions that produced positive outcomes.

While achieving the aforementioned objectives, this dissertation makes several contributions. First, it underscores the importance of attending to the interests of the primary stakeholders. Essay 1 showed that, in general, developing marketing strategies based on a broad stakeholder focus – taking into account the demands of the six primary stakeholders – is more effective for market performance than developing marketing strategies based on a narrower, market-driven approach – which concentrates on customers, employees, and suppliers, while paying relatively less attention to shareholders, communities, and regulators. This finding is consistent with the tenets of stakeholder theory, which predict that those firms that develop and nurture multiple stakeholder relationships obtain a competitive advantage over firms that do otherwise (Jones 1995). However, while Essay 1 prescribes that firms should devote attention and resources to addressing the needs of the primary stakeholders and demonstrates that stakeholder theory applies when it comes to market performance, Essay 2 suggests that it is not so straightforward. In particular, Essay 2 finds that attending to the claims of the six primary stakeholders by engaging in positive stakeholder practices does not lead to an improvement in the level of customer satisfaction. Conversely, disregarding some stakeholder demands (i.e., negative stakeholder focus) increases customer satisfaction up to a point.

One possible explanation is that stakeholder management is a zero sum game. Stakeholders have conflicting demands, and at the same time, firms have finite resources, making it highly unlikely for firms to satisfy all of their stakeholders' interests. As a result, one stakeholder group gains at the expense of the others. A firm that tries to equally address the claims of all the stakeholders will successfully meet some of its

stakeholders' demands, but will inevitably leave other demands unmet. From the customers' perspective, since the firm has met some of their needs and wants, but has failed to meet others, they will be neither satisfied nor dissatisfied. As such, it seems that a firm which has customer satisfaction as a key objective is better off giving priority to the interests of the customers by allocating more resources to ensure their satisfaction. This, in turn, will unavoidably take resources away from addressing the other stakeholders' interests.

Taken together, this discussion suggests that firms should actively monitor both the internal and the external business environment to be cognizant of the demands of their stakeholders and of how these demands change over time. They must then fulfill those interests that are common across the six groups. However, since a number of the stakeholder claims will be conflicting, it is imperative that firms prioritize among the six groups based on their objectives. By doing so, firms can more easily determine what action to take in those cases where a conflict exists.

To better understand how firms can effectively prioritize among the six primary stakeholder groups, future research should break down the stakeholder focus construct into six dimensions – customer focus, supplier focus, employee focus, regulator focus, shareholder focus, and community focus – to investigate the relative importance of each stakeholder group for performance. It is likely that the resources a firm should devote to a particular group depends on the industry where the firm competes, on the country where it operates (e.g., developed versus developing markets), and on where the firm's products are in their life cycle (cf. Jawahar and McLaughlin 2001). Marketing researchers should examine the moderating effects of these context variables on the prioritization of the

different stakeholders. In addition, further research should study the different paths through which a stakeholder focus leads to performance (e.g., corporate reputation, brand equity, innovation). For example, it is possible that one reason why attending to the six stakeholders when developing marketing strategies positively influences market performance (i.e., Essay 1) is that by seeking solutions to address the competing demands of the different stakeholders, a stakeholder-focused firm becomes more innovative than those competitors that attend to a more limited set of stakeholders, and hence do not need to be as creative in their strategies. In turn, the greater innovation of the stakeholder-focused firm leads to superior performance.

In terms of the factors that lead firms to attend to and take actions in response to their stakeholders and their needs, Essays 2 and 3 shed new light. Essay 2 showed that the business-to-business customers' stakeholder focus as well as the major competitors' stakeholder focus influence that of a focal firm. As such, firms not only pay close attention to the stakeholder practices of other entities in their environment, but consistent with institutional theory (e.g., DiMaggio and Powell 1983), they respond by copying those actions. Furthermore, Essay 3 revealed that for firms to be responsive to their stakeholders, they need to effectively acquire, distribute, interpret, and store stakeholder-related knowledge.

In addition, the way firms respond to their stakeholders depends in part on the mechanism they rely on to acquire stakeholder-related information. Specifically, firms that engage in imitative stakeholder practices rely on stakeholder-focused vicarious knowledge acquisition (e.g., drawing inferences from the observed behavior of other organizations with whom they have no direct links with – e.g., Lieberman and Asaba

2006). It seems that because these firms are unclear about how they should interact with their stakeholders, they (1) gather information about the stakeholder-focused actions taken by their competitors, (2) evaluate the outcomes these actions produce for their rivals, and (3) mimic those actions that produced positive outcomes. On the other hand, those firms that are innovative in their stakeholder practices rely on stakeholder-focused experiential knowledge acquisition as their primary mechanism to learn about their stakeholders' needs and wants. These firms invest substantial resources to gain first-hand information about stakeholders through searching (e.g., March 1991).

This dissertation is also subject to certain limitations. First, while secondary stakeholder groups such as the media and special interests groups have an influence on the firm (Clarkson 1995), the focus in the three studies was exclusively placed on the six primary stakeholder groups. It is possible that in some firms, these secondary stakeholders are considered as important as some of the primary stakeholders. Inclusion of secondary stakeholders into the studies may have offered additional insights about the interplay between primary and secondary stakeholders on one hand and the firm on the other. Second, for theory testing purposes, it was assumed in the three essays that the six primary stakeholders are equally important to firms. For example, in Essay 2, a stakeholder focus was operationalized as an equally weighted integration of attributes associated with customers, suppliers, employees, regulators, shareholders, and the community. A drawback of this assumption is that different firms having the same stakeholder focus score may differ in their focus toward particular stakeholders. Disaggregating the stakeholder focus into the different dimensions (i.e., customer focus,

supplier focus, employee focus, regulator focus, shareholder focus, and community focus) would shed additional light about firms' interactions with stakeholders.

Third, Essays 1 and 2 relied on secondary data compiled from multiple databases spanning a four-year period. While this minimizes the threat of common method bias, the data sources do not take into account how a firm's composition changes over the years. For example, if a firm acquires another firm, it is not reflected in the data. However, such acquisition may have an impact on the results. Lastly, Essay 3 uses cross-sectional survey data, which restricts the establishment of causality. Longitudinal data would help determine whether there is a lag between the attainment of stakeholder-focused organizational learning on one hand and responsiveness, innovative and imitative stakeholder practices on the other.

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